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URBAN INFRASTRUCTURE AND ECONOMIC DEVELOPMENT IN AMERICAN CITIES

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ORIGINAL

HEARING

BEFORE THE

TASK FORCE
ON COMMUNITY AND NATURAL RESOURCES

OF THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

JANUARY 22, 1986

Serial No. 6-2

Printed for the use of the Committee on the Budget

U.S. GOVERNMENT PRINTING OFFICE
57-650 O WASHINGTON : 1986

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URBAN INFRASTRUCTURE AND ECONOMIC DEVELOPMENT IN AMERICAN CITIES

WEDNESDAY, JANUARY 22, 1986

HOUSE OF REPRESENTATIVES,
TASK FORCE ON COMMUNITY AND NATURAL RESOURCES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The task force met, pursuant to notice, at 9:30 a.m., in room 210, Cannon House Office Building, Hon. Howard Wolpe (chairman of the task force) presiding.

Mr. WOLPE. The task force hearing will come to order.

As Members of Congress return to Washington this week to begin what will surely be one of the most hectic legislative sessions ever, we find ourselves operating under a new set of rules.

The Gramm-Rudman proposal to mandate reductions in Federal deficits and achieve a balanced budget by 1991 was passed by the House and the Senate in early December and was signed into law by President Reagan on December 12. The measure sets stringent deficit reduction targets for each of the next 5 years and threatens to impose automatic, across the board spending reductions in most Federal programs if Congress fails to pass a budget that achieves the level of savings required.

There exists no lack of feeling about this new budget-balancing law. Its passage has been met with both cheers of enthusiasm and jeers of protest. But regardless of how we as individuals might feel about the concept and consequences of Gramm-Rudman, one fact is indisputable, Gramm-Rudman is now the law of the land. And unless the Congress and the administration are prepared to work together as partners to craft a budget that significantly reduces the budget deficits anticipated in each of the next 5 fiscal years, a computer programmed to calculate the cost of Government action—but not the cost of Government inaction—will accomplish that task for us.

No one pretends that meeting the deficit reduction requirements of Gramm-Rudman will be easy. And no one pretends that meeting those requirements will be painless. But meeting those requirements is the job which we, as Members of Congress, have acquired.

Notably, Gramm-Rudman offers no advice on how Congress is to accomplish the specified levels of deficit reduction. It is becoming increasingly clear, however, that success in the effort to lower and eventually eliminate the Federal deficit will require not only substantial cutbacks in Government outlays, but also a careful review of the adequacy of the Nation's revenue base.

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Today's hearing is an important first step toward meeting the challenges of Gramm-Rudman. The task force has convened this hearing to examine Federal budgetary issues as they relate to urban America, and to identify ways in which Federal spending priorities can be reordered with the least amount of disruption at the municipal level.

Our agenda then is simple and straightforward. We are here to listen, and we are here to learn. My hope is that today's hearing will generate some useful suggestions for the Budget Committee to pursue as it begins what will be a very difficult task.

I am very pleased to welcome as our first panelist this morning Dr. Pat Choate, who is currently the senior research associate for TRW, formerly the Director of Research for the U.S. Economic Development Administration and the commissioner of commerce for Tennessee and Oklahoma, and is well known for his extensive work in the areas of public infrastructure and economic development. He is the author of numerous publications, including "Strategic Thinking," "America in Ruins," "The Cost of Delay," and the soon-to-be-published "High Tech Society."

As always, we enjoy having you before our task force, and we look forward to receiving your testimony this morning.

STATEMENT OF PAT CHOATE, DIRECTOR OF POLICY ANALYSIS, TRW, INC.

Mr. CHOATE. Thank you very much. I am very pleased to have the opportunity to share some thoughts with you this morning.

With your permission, I would like to submit my formal testimony to the record and summarize it briefly.

Mr. WOLPE. Without objection.

Mr. CHOATE. The essence of my testimony is that in large measure we have come to a point in our country, as we all are aware, where our public works infrastructure is wearing out faster than it is being repaired and replaced. Most of us are aware why this is occurring.

It is occurring because for 20 years, even though we are aware of this deterioration, we have had massive underinvestment, and that underinvestment is possible under a variety of ways under which we can measure it. If, for example, we measure it in the context of simple noninflated aggregate purchasing power, we find our investment fell from $30 billion in 1965 to $25 billion in 1984, a 17-percent decline.

On a per capita basis, public works investments in constant dollars dropped from $236 per person in 1965 to $142 in 1984, a 40-percent decline. Measured against the value of the gross national product, public works investments declined from 3.2 percent of the GNP in 1965 to 1.5 percent in 1984, a 52-percent decline.

With this massive amount of underinvestment, as a people we should not be surprised that we are having this underinvestment and that our public works facilities are deteriorating.

It is also important for us to recognize that these great facilities represent a fundamental part of our national wealth, and in many cases this is wealth that has been passed on to us over time, and to not invest and not take care of these facilities means that as trust-

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ees of that wealth we are perhaps not being quite as responsible as a people as we should.

Certainly this underinvestment has enormous consequences on our future. The evidence that exists about the effects on public works is largely antidotal, and in large measure what the profession which I come to you from, the economics profession, has done, it has assumed naturally that public works are a simple part of our basic economic underpinning, and that there are other studies that permit great discussion.

As the great economist Eric Zimmerman said 75 years ago, at its heart America is an experiment in transportation, our ability to move goods and services across the country, bring raw materials together to produce and redistribute. But the information we do have paints a very disturbing picture, and I will be precise about it.

In the midseventies, a series of studies were done at the Department of Commerce that tried to measure what firms seek when they make a location decision. And while that evidence has—or while these studies, as always, have some difficulties, they were done by the Census Bureau and they got a 50-percent response, 2,000 responses from over 2,000 firms, 254 categories.

They found that measured on a 100-point index, the availability of water and wastewater treatment facilities constituted 50 of the points. In other words, the availability of those treatment systems were an essential requisite for a firm locating in a specific community. It counted far more than tax incentives and the other giveaways that communities and States were offering.

This becomes particularly important when one takes a look at other statistics that have been pulled together by the Department of Commerce that suggest that perhaps in aggregate as many as half of the communities or more in this country will be unable to sustain economic development because their water and wastewater treatment systems are operating at or near full capacity.

Another excellent study was sponsored by the Department of Transportation, and undertaken by them. It suggests if we continue our road system as it was in the early 1980's, what we can expect is that deterioration will induce major declines, 3-plus percent of our gross national product, declines in our labor productivity, a decline in service, tourism, and other industries. So even from that antidotal information and simply from common sense, we can see great harm is being done to our future by not making these long-term investments.

Part of that harm is particularly insidious in the form that what we are doing is not making adequate investments to insure the maintenance of the facilities that we already have on hand. We are getting far less from those investments that we made in the past because we are not repairing and maintaining facilities on time.

We come to the question of how much money are we going to need for the future. I think we have to acknowledge that the information that is available is limited.

I would also note that in this budget, special analysis, for the first time OMB has some responsibility to make some estimates, because the Congress passed legislation in 1984, largely at the instigation of the Northeast-Midwest Congressional Coalition, which you chaired, and the House Wednesday Group, which Mr. Clinger

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chaired, that will give some numbers. But even in advance of that information, we can go back to work that the CBO has done—solid, some of the best work that is available—and as they have analyzed the statistics and gone through a series of seven major types of public works facilities, they estimate there must be a rise in expenditures, somewhere in the neighborhood of $36 billion per year in real terms, to something slightly over $50 billion a year between the mid-1980's and 1990's, and that will probably continue into the year 2000.

Their information suggests to us that the task at hand, while difficult, is well within our means. What we are really talking about is in real purchasing powers increasing our expenditures $17 to $25 billion per year.

It further suggests that it may not be necessary as a country to go back to the levels of expenditures, a portion of our GNP that we were doing in the sixties, 3-plus percent of our GNP. It may be necessary for us to go back to 2 percent or slightly more than 2 percent.

That suggests that this task is manageable, and also suggests, however, given Gramm-Rudman, current realities, that we are going to have to put together a mosaic financing. And the Government simply cannot walk away from these responsibilities. It has a major investment that it has already made, and it would be great harm to the country to see investments that it has made be permitted to deteriorate.

I am suggesting we probably require public works financing strategy, impose very careful consideration, how we make cuts, if cuts are to be made judiciously, to find ways to get better use of those funds that are made. And there are many things that can be done on that—every dollar counts, and we have to make sure we get full value.

The third thing that becomes essential is to find ways to make greater use of user fees. This is one potential that has not yet been fully developed.

Another possibility is to find some ways to privatize some facilities, a variant of user fees, and we need to find innovative ways to raise financing, and it becomes evermore important because of a story that was in the Wall Street Journal yesterday that indicated that a number of the bond houses are very leery of undertaking new financing because of the prospects of the new tax bill and the uncertainties that it raises under the tax-exempt financing.

So, in sum, what I am suggesting is, as we all know, public works are an essential part of our national wealth. They are a major determinant of urban and rural economic development, as well. These facilities continue to deteriorate, though we know they are important and deteriorating. But when you look at the numbers, the task of refinancing is a manageable task, within our means, but it will require that we devise a package, that we sort out the responsibilities, that we devise some innovative and practical ways of going about the task.

Thank you very much.

[Testimony resumes on p. 14.]

[The prepared statement of Mr. Choate follows:]

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PREPARED STATEMENT OF PAT CHOATE

Mr. Chairman and Members of the Task Force:

With the release of the President's budget documents within a few days, we will learn the status of public works expenditures in the United States. With the exception of spending made possible by the five-cent gas tax enacted in 1982, almost certainly these statistics will show a decline in public works expenditures.

This will be the continuance of a 20-year trend of long-term massive underinvestment in America's public works. Indeed, last year's statistics revealed that the nation's public works investments, measured in noninflated purchasing power (1972 dollars), fell from $30 billion in 1965 to $25 billion in 1984 -- a 17 percent decline. On a per capita basis, public works investments in constant dollars dropped from $236 per person in 1965 to $142 in 1984 -- a 40 percent

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decline. Measured against the value of the Gross National Product, public works investments declined from 3.2 percent of the GNP in 1965 to 1.5 percent in 1984 -- a 52 percent decline.

These numbers indicate that under the exigencies of tight budgets and inflation, maintenance of vital public facilities has been deferred. Replacement and rehabilitation of obsolescent public works have been postponed. New construction has been cancelled or "stretched out."

We are ignoring the fact that public works constitute a major portion of America's national wealth. They include more than 557,000 bridges, 3.9 million miles of roads and streets, 8,400 public libraries, 106,000 public elementary and secondary schools, 1,250 public colleges and universities, 43,000 dams, 3,100 courthouses, 4,200 parks and 4,700 public airports. And this partial listing does not include water systems, wastewater treatment facilities, jails, ports, waterways and levees, among dozens of other types of vital public facilities.

These public facilities undergird our economy and the many quality-of-life services on which we all depend. Indeed, investment in well-conceived public works is as essential to national and economic renewal as investment in well-conceived plant, equipment, technology and worker training by the private sector.

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This fact has been obvious so long and has been so well accepted by economists that surprisingly little research has been done on the role of public works in the economy -- funds have gone to other areas where there was less certainty. But the research, though limited, which does exist confirms this widely held conclusion.

Community Development

A number of studies have measured the influence of public works on the location and investment decisions by individual firms. Perhaps the most comprehensive of these was a study completed in the mid-1970s by the U.S. Department of Commerce. Over 2,000 firms operating in 254 distinct product classes were examined. The findings of that study remain valid today.

For virtually all of the 254 categories of industry studied, the survey found that the availability of public works facilities were either of critical or significant importance to location decisions. Moreover public facilities were almost always a more important locational consideration than were local tax incentives, industrial revenue bond financing or community "giveaways." These findings indicate that while the availability of basic public works in itself is not a sufficient condition for inducing plant location by a firm, it is virtually always an important prerequisite for such investment. The availability and condition of public

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facilities are therefore major determinants of business location decisions.

Today, a growing number of communities are impeded in their economic revitalization efforts because their basic public facilities are too limited, obsolete or worn out to sustain a modernized economy. At the beginning of the 1980s, for instance, a Department of Commerce survey of 6,870 communities found that almost half were limited in their economic growth because their wastewater treatment systems were operating at full capacity and were unable to accommodate additional industrial loads. The same survey revealed that in a third of these communities, water treatment and distribution systems were also operating at full capacity.

In the six years since the Commerce survey was taken, cutbacks in public works expenditures by the federal, state and local governments have shackled efforts to address these investment requirements. The result is continued deterioration and diminished economic development capacity.

Industry

The effects of deteriorating public works extend beyond individual communities to specific industries and the entire economy. The Transportation Systems Center of the U.S. Department of Transportation reports that if the nation's roads

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continue their present pace of decline, by 1995, deteriorated roads will cause an absolute reduction in the annual outputs of industries such as pharmaceuticals, books, clocks, apparel, soft drinks, photographic supplies, canned foods and the tourist industry, among many others.

Econometric studies prepared by the Transportation Systems Center indicate that if deterioration of the nation's highways continues, the annual costs to the economy by 1995 will include:

- a 3.2 percent loss of Gross National Product;
- an 8.0 percent increase in the consumer price index;
- a 5.9 percent decline in disposable income;
- a 2.2 percent decline in employment;
- a 2.7 percent decline in labor productivity in manufacturing; and
- a 3.6 percent productivity decline in non-manufacturing activities.

Future Financing Needs

Today, it is difficult to even estimate the range of potential investments that will be required to rebuild the nation's public works. This reflects (a) the absence of common standards for public works facilities and the services they provide; (b) inadequate information on the inventory and condition of existing facilities and on estimated costs of

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repair; and (c) a lack of consensus on what types of projects should be given priority. The federal government's new capital accounting process will help fill these gaps.

Even though the magnitude of the financing challenge cannot be specified in detail, the requirements will be substantial. Clearly, not all projects can be funded; nor can all public works-related services be maintained at today's levels. Difficult choices must be made. Making these choices will require better use of existing financing techniques, as well as the creation of new financing approaches. A four part strategy seems most appropriate.

Limit Federal Public Works Budget Cuts -- The federal government makes almost half of all public works expenditures. A basic challenge is how to deal with federal fiscal retrenchment. Further withdrawal of federal support would devastate the capital programs of most states and communities. Moreover, it would put at risk the billions of dollars of investments the federal government has already made.

While the exigencies of budget reductions may require the federal government to further reduce its public works investments, how this is done is critical. Indeed, too much is at risk to permit federal cuts with the hope that other sources will be forthcoming. Thus, additional reductions in federal expenditures should be made in a manner that assures financing alternatives are available.

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Make Aggressive Use of Available Federal Funds -- The nation can get much more from its public works dollars than it now does. Projects are being stretched out, for example, thereby raising their costs. The Interstate Cost Estimates take too long to pass Congress. Better design and oversight of construction will ensure more for the money. Indeed, much is to be gained from systematically searching for ways and means to squeeze full value from every dollar of investment.

Better Application of User Fees -- A major portion of the nation's public works financing can be met by more creative and extensive application of user fees. User fees are politically effective since users of public works services pay while non-users do not. They are also economically effective since they can raise substantial quantities of funds.

User charges can be tailored and applied to virtually every type of public facility. Moreover, special income adjustments for the poor can make user fee financing equitable.

Create a New Public Works Financing Mechanism -- The nation requires a new public works financing mechanism. Its basic mission would be to provide loans for public works construction and rehabilitation projects that either have or will ultimately derive revenues from user fees -- with the understanding that those fees will be used to repay the loans. Today, projects are often impeded in their ability to raise construction and

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rehabilitation funds through bond offerings because of high transaction costs created by the small size of the offerings.

Ideally, a national public works bank would have the following characteristics: (a) it would finance only those projects that have a guaranteed revenue flow from user fees; (b) it would limit financing to the level of the debt that user fees can service; (c) capital for the bank would be provided on a 50-50 basis by the state and federal governments; (d) state participation would be elective; (e) individual projects would be chosen at the state and local levels; (f) funds would be raised in the open capital market; (g) the bank would be an independent federal agency and therefore eligible for federal rates (the bank would not be eligible for tax-exempt rates and would not be competing in that market); (h) the bank would be eligible to receive direct grants from the federal government, should the President and Congress wish to reduce interest rates or project costs; and (i) the bank's administrative and operating costs would be covered by a nominal surcharge on the loans.

Such a bank would have many advantages. By using public funds for capitalization of the bank rather than loans, for example, the bank would provide leverage of seven or ten to one for every dollar appropriated. In the tight budget era of today, this is an important advantage indeed. The creation of

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this bank is a prudent, practical way to help raise the billions of dollars needed to rebuild the nation's public works.

Conclusion

Since the early 1980s, it has been obvious that the nation's stock of public works is deteriorating. Underinvestment is the cause. Although the nation will likely be forced to live with very tight budgets for the foreseeable future, this does not dictate a course of inaction.

Now, more than ever, the nation requires a systematic public works financing strategy which involves all levels of government. Central to that strategy is to sort out responsibilities in a manner that assures critical tasks, such as assuring the maintenance of existing facilities, are not ignored.

Better uses of existing funds are required. New and innovative financing techniques are also needed, since existing approaches are clearly inadequate.

The challenge of devising such a financing strategy are great, but the risks and potential consequence of not doing so are even greater.

Thank you.

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Mr. WOLPE. There are other economists and other studies that have tended to give less emphasis to the importance of new infrastructure investments and which raise questions about the linkage between infrastructure and economic growth in particular. What are the differences in the kinds of economic assumptions that underlie those varying projections?

Mr. CHOATE. One of the variances comes in as to whether one is talking about making investment in new facilities or in repair and maintenance of facilities.

In truth, what we are seeing as a country, certain parts of the region require maintenance, rehabilitation and repair, particularly the older parts of our country and some of our older types of infrastructure; for example, the waterways and the locks on those waterways.

Other parts of the country, however, particularly the South and West, require a different set of infrastructure needs. They do require new infrastructure needs.

When one takes a look at the census projections to the year 2000, midrange projections, what one finds is a shift of possibly as many as 27 million people out of the Northeast and Midwestern regions, to those States. Discount those numbers, put a discount of a third or more on those numbers, and that is still a massive increase in population in those areas.

It is also—it probably means also that there may be some diminution in economic capacity in the Northeast and Midwestern parts of the country, their ability to finance their rehabilitation. That may be one difference.

A second difference comes to the question, the perceptions of whether or not we need a manufacturing base in our country, and a manufacturing basis necessarily requires a strong system of transportation, highways, rails, water systems, and again I think I make the argument in looking to the future that the country cannot afford to see further diminution of its manufacturing base. It underpins the balances in our economy, and that speaks to the necessity to make the basic investments that require that we have a strong manufacturing base; specifically, again, those locks, those wastewater treatment systems, highways, the ports, all of this basic underpinning of a vibrant manufacturing base. So, again, that may be some of the difference.

Mr. WOLPE. There are some who would argue that the current recovery which is taking place belies a need for massive new investments in infrastructure. What is your response to those who point to the current performance of the economy?

Mr. CHOATE. When one takes a longer term look at it, that we have to see in major part, this recovery that we are seeing is Keynesism on a grand scale, and it is dependent on how long we can continue to bear these massive amounts of money and do this deficit financing.

At some point, the borrowed money is going to run out, which means the borrowed time runs out. And the illusion of economic prosperity that we are putting into place, it is going to become clear that it is not real growth.

When one looks beyond the superficial, what one finds is that we are losing competitiveness in one major industry after another, see

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one major firm after another move some of their most important operations offshore, and that will have implications extending well into the 21st century. And these are enormous costs being hidden by this deficit.

To not make these investments, when one takes a look at the longer term, we will in effect—they will work absolutely to the contrary, to the very purpose that the supply side solution is attempting to do. I mean, after all, an economy must have the capacity to produce.

The public capital provides a fundamental underpinning. We cannot levitate this economy above a basic infrastructure that is rotten underneath it, and that is what is happening to us, to say nothing about the quality of life considerations, Mr. Chairman.

Mr. WOLPE. You refer to the need for some creative financing and also to the widening mission of user fees. Could you be a bit more specific as to what kinds of proposals you would advance in both categories?

Mr. CHOATE. Under the question of financing, the time has probably come for us to find some way to create a new public works financing mechanism that in effect uses some capital from the Federal Government and from State and local governments, that could be used to perhaps cut a new window into the capital markets that would permit us to raise some taxable bonds that could be used by State, and local governments to finance public works construction.

Given all the certainties about tax-exempt bonds, communities need the assured access that they can get the money over a long period of time, and the Congress may wish to be able to subsidize interest rates or capital costs. There are a variety of ways that such a mechanism could be created.

The CBO has done a comparison of seven or eight of the different techniques. Each has advantages and disadvantages. The specifics of any one of the individual projects is secondary to the question that we really do need, I believe, a new mechanism by which we can finance this massive task.

At its heart, such a financing has to be grounded on user fees. In other words, those who benefit should, in effect, pay.

What I am also suggesting is, I think, that the public would be willing, as they were with the gas tax, if they can see that there is a benefit, as much as we hate paying—they would be willing to make that expenditure.

To the extent that we can raise money in that manner, then we will reduce pressures on the general revenues from the Federal, State and local governments to fund those kinds of projects that are less susceptible to the application of user fees. And there are things we can do with user fees to offset some of the inequities that user fees sometimes create, so it is an area that we have explored partially but not sufficiently.

Mr. WOLPE. I know one of the major thrusts of your testimony today and your previous writing has been the need to recognize the diversity of capital investment requirements in differing parts of the country, and you made that point again. But if one were to be forced into some prioritizing, as distinct from an across the board kind of approach, would you give some sense where you would

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regard the greatest needs and identify those of secondary importance?

Mr. CHOATE. I would almost do it under a sense of priorities.

There is a system of what I would almost call national projects, national public works investments, that, by necessity, require a priority. Obviously, that includes our transportation systems, our roads, our ports, our waterways, and our airport systems; in other words, these great links that bind us.

Second, there have traditionally been a series of projects, such as flood prevention, which the projects cross two or three States, which must remain a top priority because we are talking about protection of life and property. So that merits special attention.

There is the question of also the weights in the wastewater treatment systems, and we must keep high on our national priorities clean water.

Again, the Federal Government has undertaken the responsibility to put that on the national agenda and mandated certain expenditures, and it is incumbent upon the Federal Government to continue to make funds available for those types of projects.

Moving to State and local areas, there are a number of projects with important economic implications, quality of life implications. We should perhaps consider in the ways that we finance—at least from the Federal Government imposed mandates—we need to find ways and means to give local authorities greater discretion; in other words, let each community have a greater say in what their priorities are.

Again, the type of financing mechanism I am suggesting we need, defining it in a broad sense, what I have suggested is that the State governments engage in capital budgeting; that they have a major responsibility in determining what those projects would be.

So I am suggesting, above the national projects, we really need a process to encourage priority setting in State and local governments, and there can be great variations to reflect the great variations of needs.

Mr. WOLPE. One of the most contentious areas of the budget has been mass transit, with the administration each year advancing massive cuts in mass transit, Amtrak and the like. What is your feeling on that?

Mr. CHOATE. First, it is obvious that many cities require the mass transit. It is an integral part of the layout of their cities and the lifestyles of its people. And without Federal assistance, many of these cities will not be able to maintain these facilities, and that is simply a reality.

What makes that reality particularly important for the Federal Government is to recognize the smooth functioning of those cities in large measure reflects where the Federal Government gets its revenues, out of the economic development and activities of those cities.

As to the question of how those funds should be made, I find persuasive arguments that have been made by the Urban Institute and an article yesterday in the Wall Street Journal about the possibility of finding ways to permit greater flexibility in the use of mass transit. And one of the subsequent speakers may address that. But I find that very attractive: To combine the idea of contin-

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ued Federal investment, because of a real need and a national benefit; and second, do it in a manner that gives mayors greater choice on how they are going to spend their funds.

Mr. WOLPE. Could you comment on the trends? What are the trends across the country in terms of State and local investments in infrastructure as a percentage of the total State and local budgets, and in contrast with that of the Federal Government?

Mr. CHOATE. Well, what we have seen from the midsixties up until the early eighties, we saw a sharp decline in State and local expenditures, and we saw the Federal Government maintaining in absolute terms a flat level. Since 1980, we have seen some States decline, and some States have increased their capital investment, but we have seen most State governments now begin a systematic process of capital budgeting. There are various stages, but they are recognizing the central role that the public works play.

We are also seeing various States propose innovative ways to approach it: bond banks. Governor Kean proposed an innovative proposal that ran into some difficulties, and Governor Lamm in Colorado engaged in massive statewide budgeting. And the same in Texas.

Mr. WOLPE. How many State infrastructure banks are actually functioning?

Mr. CHOATE. At this point, I think there were nine. But don't hold me to that. I can submit it later.

Mr. WOLPE. On the privatization to which you referred in passing, to what extent is privatization a feasible concept as applied to our measure of the cities?

Mr. CHOATE. It has some application. It will vary. You have some communities in Pennsylvania, New York, New England where private companies own the water systems. In fact, most of them were originally set up as private mechanisms. You have many communities using private firms to deal with rubbish and other activities.

There is a role. It may be limited. And there are advantages and disadvantages when you use privatization. The advantages are you can have some flexibility; it doesn't require tax. On the other hand, people ultimately pay anyway, and in some cases more. You have to put on top of that a profit.

Efficiency, the private sector can sometimes offset that. And look at Dallas and Houston. The public sector can operate very efficiently, as well. Efficiency is not the purview solely of the private sector.

Mr. WOLPE. If the tax reform bill were to go through to final passage, with changes in the depreciation schedule, possible loss of investment tax credit and the like, would that not impact on the flexibility of privatization schemes?

Mr. CHOATE. I look at that tax bill and it makes me very confused. So I don't want to give you an expert opinion on that.

Mr. WOLPE. There is one element of the tax bill I would be interested in your reaction, the deductibility of State and local taxes, as relating to the whole question of State and local contribution to the whole structure.

If we end up in the situation of substantial budget cuts, consequences of the Gramm-Rudman guidelines, what would be the

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impact, if we were to modify or repeal State and local deductibility?

The House version of the legislation rejected the administration's proposal to repeal deductibility, but it still may be an open question in the Senate. How would you assess the importance of that particular issue?

Mr. CHOATE. Obviously, it will create major financing problems for State and local governments in raising the money to finance these activities. It will also mean that you are going to see, when they do begin to finance it, substantial increases in the interest rates they have to pay, and that will translate into increased water, sewer bills, and costs for the consumer.

The tax deductibility for this financing has long been a part of the financing structure on which State and local governments have depended, and I am sure the mayors will suggest, as will people from the bond houses, this will cause real chaos in the financing of these infrastructure facilities.

One question we might want to think about as a people, even though we might be able over a period of time to sort it out and come up with something that might even have greater benefits, though I doubt it, in the period of transition, 2 years, while that sorting out process is going on, what will that do when we don't make the investments, don't do the repairs or maintenance activities?

The cost of chaos may offset any potential benefits that may come from it. That has not necessarily been calculated.

Mr. WOLPE. I want to thank you very much, Dr. Choate, for your excellent testimony this morning. It will help us begin that process in building the record which will lead us to a reasoned approach to the deficit crisis we are facing this year.

Mr. CHOATE. Thank you very much.

Mr. WOLPE. Thank you. Let me invite our second panel to come forward: Dr. Ron Kirby, Dr. Ted Miller, and Mr. Doug Peterson.

Dr. Kirby is director of transportation studies for the Urban Institute; Dr. Miller is a senior research associate for the Urban Institute, holding a Ph.D. in regional science, and a bachelor's degree in engineering; and Mr. Peterson is a policy analyst from the National League of Cities, representing over 16,000 of our cities.

I am delighted to welcome all of you. I would ask, if you would, to summarize your testimony this morning in a very few minutes to allow time for some discussions. The entire text of your written testimony will be entered into the record. Dr. Kirby.

STATEMENT OF RONALD F. KIRBY, DIRECTOR OF TRANSPORTATION STUDIES, THE URBAN INSTITUTE, WASHINGTON, DC

Mr. KIRBY. I greatly appreciate the opportunity to appear before this task force to discuss the Federal budgetary commitment to urban infrastructure. My testimony focuses on the Federal role in financing urban transportation, highways, and mass transit.

From the viewpoint of the demand for urban roads and mass transportation, now is certainly not the time to reduce overall funding commitments, even though some shifts may be required between the various sources of transportation funds. Indeed, there

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is mounting evidence of substantial underinvestment in this sector over the past decade or so.

There are three major reasons for this state of affairs: Revenues from gasoline taxes and other user fees have not kept up with inflation; costs of urban roads and mass transit generally have kept up with or exceeded inflation; and rapid development around suburban and exurban areas and increased car ownership have generated new transport demand without contributing to commensurate increases in transport capacity.

In the Washington, DC, metropolitan area, for example, the numbers of automobiles and vehicle miles of travel have increased by over 50 percent over the past decade, more than five times the population growth rate. Over the same period, expenditures on highways have declined steadily in real terms, however. Responsible local and State governments have only recently recognized the shortfall in highway investment, and are now engaged in major efforts to find new revenue sources.

With regard to mass transit, rapidly growing intrasuburban travel is creating a need for more flexible services using minibuses and vans rather than large buses and subways. Suburban localities are finding that traditional downtown-oriented transit services serve only a small portion of their citizens' travel demands, and are having to develop and finance entirely new public transportation systems to keep up with suburban expansion.

In addition, greater travel by elderly and disabled persons is increasing demand for specialized public transportation systems utilizing wheelchair accessible vehicles and providing door-to-door services. Because of our automobile-oriented development patterns—stimulated in part by Federal housing and highway policies—these public transportation services cannot be operated at reasonable fares without substantial subsidies.

These new pressures are coming on top of requirements to maintain existing roads and transit services. New ways to finance, develop, and manage urban transport are urgently needed to catch up with demand.

The next several months will be a critical period for determining the role of the Federal Government in meeting current and future urban transport needs. Before the end of fiscal year 1986, a multiyear reauthorization of the Federal highway and mass transit programs must be enacted. In addition, requirements to cut the Federal budget deficit will bring considerable pressure on funding levels for highways and mass transit.

Unfortunately, the impacts of Federal participation in urban roads and mass transportation over the past three decades have been far from exemplary. An abundance of Federal capital funds, very low State and local matching requirements, lavish Federal standards, and restrictive Federal stipulations have contributed to overcapitalization, cost escalation, and neglect of preventive maintenance.

Many urban interstate roads were overly expensive and intrusive, and local protests forced the abandonment of several of them. Those that were completed acted as magnets for new development. Beltways around major cities promoted suburban development at

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the expense of older downtowns, and became major urban travel corridors rather than intercity bypasses.

Efforts to correct this highway bias by providing capital assistance to mass transit led to overinvestment in new rail transit systems and unnecessary public takeover of private bus companies. Federal operating subsidies later reinforced monopoly operation of transit by public agencies, to the exclusion of potentially more efficient private sector services.

Compounding these structural problems with Federal highway and transit programs is the growing uncertainty over budget levels, which currently account for around 25 percent of all expenditures on urban roads and mass transportation. Requirements to reduce the Federal budget deficit substantially over a short time period mean that State and local governments cannot predict with any confidence the availability of Federal highway and transit assistance, even though most of it comes from a trust fund supported by user fees.

Since many Federal aid projects are currently committed and at various stages of construction, sudden Federal funding cutbacks may have to be applied heavily to badly needed new projects.

Under these conditions, Federal assistance is certainly not contributing to rational urban transport planning and programming. To the contrary, the Federal program is a distorting and disrupting influence on local decisionmaking. Major reforms will be needed if the Federal Government is to play a constructive role in shaping tomorrow's urban transport systems.

Several options exist for reforming Federal assistance to urban transportation. In 1982, the Oversight Subcommittee of the House Committee on Public Works and Transportation recommended a new block grant for mass transportation, which would give local governments unrestricted choice between capital and operating expenses, thereby eliminating the capital bias inherent in the current program. A similar block grant could be designed for Federal assistance to urban highways.

A more ambitious option would be to combine current Federal highway and mass transportation assistance into a single block grant disbursed to urban areas through the States. The Reagan administration is expected to propose an urban mobility block grant along these lines in conjunction with its fiscal year 1987 budget proposals.

State governments appear to be well situated to administer a program of Federal block grants to urban transportation. They already administer Federal highway assistance in conjunction with their own highway funds, and they have been increasing their financial involvement in urban mass transportation steadily over the past 4 or 5 years, in part to compensate for the decline in Federal funds.

An even more dramatic change would be to return 3 cents or so of the Federal gasoline tax to State and local governments, along with commensurate responsibility for urban and secondary roads and urban mass transportation. Under this option, the Federal Government would retain responsibility for only those roads of truly national significance; namely, the interstate and primary systems with their associated bridges.

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Assistance to urban transportation would be removed from the vagaries of the Federal budget process and the complexities and distortions inherent in the current highway and mass transportation programs.

Revenues from the motor fuel tax and other user fees which currently provide $13 billion annually to the highway trust fund are expected to grow by only 1 or 2 percent per year, well short of the amount needed to maintain current purchasing power. Similarly, the $2.6 billion in general revenue currently available for urban mass transportation seems likely to decline in real terms over the next few years as a result of pressures to reduce the Federal deficit.

Taken together with the structural problems of the current highway and mass transportation programs, these projected declines in budget levels argue for reforms in Federal aid to urban transportation along the lines of block grants or revenue turnbacks. Fewer distortions and restrictions combined with greater predictability of funding availability would go a long way toward compensating State and local governments for somewhat reduced Federal financial assistance.

Mr. Chairman, I would like to include for the record an article I wrote on reforming Federal aid to mass transit which appeared yesterday on the editorial page of the Wall Street Journal.

In conclusion, Mr. Chairman, I believe that in reevaluating the Federal budgetary commitment to urban highways and transportation, the Congress should consider seriously the need for structural reform in these Federal programs. Evaluation of more than two decades of experience suggests that whatever dollar levels emerge from the budget debate, the Federal Government should provide largely unrestricted financial assistance through block grants or revenue turnbacks, and encourage State and local governments to assume primary responsibility for rehabilitating and expanding their urban transportation systems.

Thank you.

[Testimony resumes on p. 28.]

[The prepared statement of Mr. Kirby, with attachment, follows:]

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PREPARED STATEMENT OF RONALD F. KIRBY

Mr. Chairman, I greatly appreciate the opportunity to appear before this Task Force to discuss the federal budgetary commitment to urban infrastructure and economic development in American cities. My testimony focuses on the federal role in financing urban transportation, both highways and mass transit.

Urban Transportation Needs

From the viewpoint of the demand for urban roads and mass transportation, now is certainly not the time to reduce overall funding commitments. Indeed, there is mounting evidence of substantial underinvestment in this sector over the past decade or so. There are three major reasons for this state of affairs:

- o revenues from gasoline taxes and other user fees have not kept up with inflation;
- o costs of urban roads and mass transit generally have kept up with or exceeded inflation; and
- o rapid development around suburban and exurban areas and increased car ownership have generated new transport demand without contributing to commensurate increases in transport capacity.

In the Washington, D.C., metropolitan area, for example, the numbers of automobiles and vehicle miles of travel have increased by over 50 percent over the past decade, more than five times the population growth. Over the same period, expenditures on highways have declined steadily in real terms, however. Responsible local and state governments have only recently recognized the shortfall in highway investment, and are now engaged in major efforts to find new revenue sources.

With regard to mass transit, rapidly growing intra-suburban travel is

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creating a need for more flexible services using minibuses and vans rather than large buses and subways. Suburban localities are finding that traditional downtown-oriented transit services serve only a small portion of their citizens' travel demands, and are having to develop and finance entirely new public transportation systems to keep up with suburban expansion. In addition, greater travel by elderly and disabled persons is increasing demand for specialized public transportation systems utilizing wheelchair accessible vehicles and providing door-to-door services. Because of our automobile-oriented development patterns (stimulated in part by federal housing and highway policies), these public transportation services cannot be operated at reasonable fares without substantial subsidies.

These new pressures are coming on top of requirements to maintain existing roads and transit services. New ways to finance, develop, and manage urban transport are urgently needed to catch up with demand.

The Federal Role

The next several months will be an critical period for determining the role of the federal government in meeting current and future urban transport needs. Before the end of fiscal 1986, a multiyear reauthorization of the federal highway and mass transit programs must be enacted. In addition, requirements to cut the federal budget deficit will bring considerable pressure on funding levels for highways and mass transit.

Unfortunately, the impacts of federal participation in urban roads and mass transportation over the past three decades have been far from exemplary. An abundance of federal capital funds, very low state and local matching requirements, lavish federal standards, and restrictive federal stipulations have contributed to overcapitalization, cost escalation, and

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neglect of preventive maintenance.[1]

Many urban interstate roads were overly expensive and intrusive, and local protests forced the abandonment of several of them. Those that were completed acted as magnets for new development. Beltways around major cities promoted suburban development at the expense of older downtowns, and became major urban travel corridors rather than intercity bypasses. Efforts to correct this highway bias by providing capital assistance to mass transit led to over-investment in new rail transit systems and unnecessary public takeover of private bus companies. Federal operating subsidies later reinforced monopoly operation of transit by public agencies, to the exclusion of potentially more efficient private sector services.

Compounding these structural problems with federal highway and transit programs is the growing uncertainty over budget levels, which have traditionally accounted for around 25 percent of all expenditures on urban roads and mass transportation. Requirements to reduce the federal budget deficit substantially over a short time period mean that state and local governments cannot predict with any confidence the availability of federal highway and transit assistance, even though most of it comes from a trust fund supported by user fees. Since many federal-aid projects are currently committed and at various stages of construction, sudden federal funding cutbacks may have to be applied heavily to badly needed new projects.

Under these conditions, federal assistance is certainly not contributing to rational urban transport planning and programming. To the contrary, the federal program is a distorting and disrupting influence on local decision-making. Major reforms will be needed if the federal government is to play a

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[1] "The Federal Role in Infrastructure Renewal," by Ronald Kirby, Kiran Bhatt, and Michael Beesley, Urban Institute Discussion Paper, December, 1983.

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constructive role in shaping tomorrow's urban transport systems.

Directions for the Future

Several options exist for reforming federal assistance to urban transportation. In 1982 the Oversight Subcommittee of the House Committee on Public Works and Transportation recommended a new block grant for mass transportation, which would give local governments unrestricted choice between capital and operating expenses, thereby eliminating the capital bias inherent in the current program. A similar block grant could be designed for federal assistance to urban highways.

A more ambitious option would be to combine current federal highway and mass transportation assistance into a single block grant disbursed to urban areas through the states. The Reagan Administration is expected to prepare an "urban mobility block grant" along these lines in conjunction with its fiscal 1987 budget proposals.

State governments appear to be well-situated to administer a program of federal block grants to urban transportation. They already administer federal highway assistance in conjunction with their own highway funds, and they have been increasing their financial involvement in urban mass transportation steadily over the past four or five years, in part to compensate for the decline in federal funds.

An even more dramatic change would be to return three cents or so of the federal gasoline tax to state and local governments, along with commensurate responsibility for urban and secondary roads and urban mass transportation. Under this option, the federal government would retain responsibility for only those roads of truly national significance: namely, the Interstate and primary systems with their associated bridges. Assistance to urban transportation

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would be removed from the vagaries of the federal budget process and the complexities and distortions inherent in the current highway and mass transportation programs.

Revenues from the motor fuel tax and other user fees which currently provide $13 billion annually to the Highway Trust Fund are expected to grow by only one or two percent per year, well short of the amount needed to maintain current purchasing power. Similarly, the $2.6 billion in general revenue currently available for urban mass transportation seems likely to decline in real terms over the next few years as a result of pressures to reduce the federal deficit.

Taken together with the structural problems of the current highway and mass transportation programs, these projected declines in budget levels argue for reforms in federal aid to urban transportation along the lines of block grants or revenue turnbacks. Fewer distortions and restrictions combined with greater predictability of funding availability would go a long way toward compensating state and local governments for somewhat reduced federal financial assistance.

Mr. Chairman, I would like to include for the record an article I wrote on reforming federal aid to mass transit which appeared yesterday on the editorial page of the Wall Street Journal.

Conclusion

In conclusion, Mr. Chairman, I believe that in re-evaluating the federal budgetary commitment to urban highways and transportation, the Congress needs to consider seriously the need for structural reform in these federal programs. Evaluation of more than two decades of experience suggests that whatever dollar levels emerge from the budget debate, the federal government should provide largely unrestricted financial assistance through block grants or revenue turnbacks, and encourage state and local governments to assume primary responsibility for rehabilitating and expanding their urban transportation systems.

Attachment.

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From the Wall Street Journal, Jan. 21, 1987

Transit Total Is Secondary To How Aid Is Directed

By Ronald F. Kirby

The next few months offer a rare opportunity to reverse the well-intentioned but demonstrably ineffective course that was set for federal aid to mass transit more than two decades ago. Before the end of this fiscal year, a multiyear reauthorization of the federal highway and mass transportation program is due. The Reagan administration's budget proposal for fiscal 1987 is expected to include cuts in transit aid of 40 percent or more. These will provoke vigorous debate, but some basic questions about this program are even more important than the dollar-level issues.

Two decades of experience have shown federal assistance to urban mass transit to be misdirected and ill-structured. While Washington has been preoccupied with restructuring transit systems under public ownership and keeping fares down, the productivity of the industry has been falling, and costs and subsidies have been escalating rapidly. Since 1965, passenger revenues have fallen from 98 percent to 38 percent of total operating expenses of urban mass-transit systems. And while federal funds have been supporting traditional downtown-oriented transit routes, demands for new transportation services have been growing on the suburban or exurban fringes.

For too many cities, the aid has actually been counterproductive—distorting local decisionmaking and pushing transit-system development into dead-end paths. The primary villain has been the 80 percent federal funding match for capital equipment established in 1964. The lure of Uncle Sam's 20-cent dollars led cities to buy new buses rather than repair existing ones, and to embark on politically attractive but ill-conceived construction projects.

After $8 billion in federal assistance over two decades, for example, New York possesses a waterlogged subway tunnel to nowhere and a decrepit transit system. Similarly, a new $1 billion rail line in Miami has attracted only 20 percent of the forecasted 100,000 daily riders, and has been labeled a white elephant in a Miami Herald feature article. In the meantime, critically needed bus services for lower-income travelers in that city are being cut back to pay for the operating deficit of the rail system. In smaller cities such as Memphis buses lie idle because of insufficient operating funds to pay for gas and salaries. Yet massive maintenance facilities have been built in order to take advantage of federal dollars.

The generous federal/local match for capital equipment encouraged local governments to buy up privately owned transit companies, consolidating them under public ownership. But the resulting public monopoly system has backfired in many cases—making management decisions by transit systems overly vulnerable to political pressures and insulating these systems from the efficiencies and innovations that might emerge from a more competitive marketplace.

Another problem is that much of the federal capital assistance program is granted on a discretionary, rather than on a needs-formula basis—an open invitation to pork-barreling. Indeed, officials of the Urban Mass Transportation Administration who have tried to resist the use of federal funds for ill-advised construction projects, such as Miami's rail system, have been swamped by political tides.

Having played such a large role in creating this dismal state of affairs, the federal government now has a responsibility to help put local transit back on track. This can only be done by reforming the transit program to eliminate the counterproductive incentives it has created. Some of the crucial elements in a new program would include: the disbursing of federal funds entirely by formula (based on population density, extent of car ownership and local contribution, for example); placing the choice of using these funds for capital or operating needs in the hands of local officials, and requiring competitive procurement of transit services (New York and other cities are starting to move in this last direction).

A promising initiative for transit reform was presented in a May 1982 report by a House Transportation Subcommittee. The report recommended a block grant for federal assistance that would give local governments unrestricted choice between capital and operating expenses and between existing transit agencies and a variety of private transportation companies. The Reagan administration, moving in a similar direction is expected to propose an "Urban Mobility Block Grant" along with its 1987 budget. This proposal would provide greater flexibility for local officials not only for transit expenditures, but also in choosing between highway and transit projects. While some of the bias toward capital projects would be retained under this proposal, many of the ills of the current transit program would be remedied.

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Indications of what a more rational transit program could achieve are provided by successful innovations carried out in a few communities around the country. Cost-savings of 20 percent and more have been achieved through contracting out low-use routes to private taxicab companies, as in San Diego and Phoenix, or higher-use routes to private bus companies, as in Seattle, Dallas and Houston.

Suburban jurisdictions in Washington, Kansas City and Minneapolis-St. Paul have cut back costly regional bus services, substituting locally run bus and minibus services. In New York and Chicago, private companies have successfully expanded profit-making commuter buses to rescue riders from inadequate rail services. And in Norfolk and San Francisco, public-transit agencies have actively promoted the expansion of inexpensive but highly effective car and van-pool services for commuters. Transit fares that vary according to distance traveled and apply rush-hour surcharges have reduced operating deficits in several communities.

It seems likely that federal transit budgets will continue to shrink in the foreseeable future. Whatever dollar levels emerge from the budget debate, if local decision makers are presented with rational incentives and the freedom to choose, they are much more likely to spend their transit dollars wisely.

Mr. WOLPE. Thank you very much, Dr. Kirby. Dr. Miller.

STATEMENT OF TED R. MILLER, SENIOR RESEARCH ASSOCIATE, THE URBAN INSTITUTE, WASHINGTON, DC

Mr. MILLER. My testimony assesses, first, infrastructure spending levels and infrastructure need; second, the role of Federal infrastructure financing in economic development; and third, the Federal programs that provide the largest amount of funding for urban economic development; namely, the Community Development Block Grant and UDAG Programs.

Infrastructure need is commonly assessed either by examining expenditure patterns or shortfall from engineering standards. Our research does not suggest that the Nation is facing an extraordinary period of infrastructure need by either of these criteria.

At least since 1947, infrastructure primarily has been financed by State and local governments, often using Federal grant receipts. As figure 1 in my written testimony shows, in constant dollars, State and local infrastructure spending rose steadily from 1947 through 1967. It then dropped off and stabilized at the investment levels of the early 1960's. Meanwhile, direct Federal spending on nondefense infrastructure has fluctuated around $10 billion per year. Thus, the trend in public sector infrastructure expenditures does not seem to suggest a serious shortfall.

Infrastructure needs estimates based on comparison of conditions and standards vary widely and depend critically on the standards underlying them. The large nominal backlog of infrastructure needs in part may reflect America's traditionally ambitious goals for improving its infrastructure. The agenda merely may have shifted from paving dirt roads and supporting indoor plumbing to reducing the pollution associated with sewage treatment and maintaining our ever-expanding infrastructure stock.

Urban economic development expenditures generally provide new infrastructure associated with a specific development rather than needed renovation. Furthermore, Federal financing of economic development is based on the equity-oriented goal of redistributing public investment to localities and neighborhoods that otherwise would be unable to sustain needed levels of expenditure.

UDAG expenditures are intended to divert private investment from economically healthy areas to distressed urban locations.

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Community Development Block Grant expenditures are earmarked for housing, public works, and economic development that benefit low and moderate income people, or assist in redevelopment of blighted areas.

The Community Development Block Grant Program has proven value in cushioning the impacts of neighborhood decline. It works well in redistributing urban infrastructure maintenance and service investments to lower income areas where cities might not otherwise sustain an adequate commitment.

The block grant program targets poor people much more successfully than most spatially focused programs. Ninety percent of program expenditures meet HUD standards of program benefit to low and moderate income persons. Continuing cutbacks in the inflation-adjusted level of block grant expenditures have resulted in corresponding decreases in expenditures on public works in low income neighborhoods.

At the same time, the Reagan administration has successfully encouraged increased use of block grant funds to promote economic development, primarily through direct assistance to private firms. Although this shift has potential benefits in terms of increased urban tax revenues and employment growth, it also appears to have reduced emphasis on neighborhoods as targets or vehicles for community development efforts.

The administration has proposed terminating the authority, granted under section 108 of the Housing and Community Development Act, for entitlement communities to use future community development block grant funds as collateral for loans to finance large-scale urban renewal. In this regard, no other method except general obligation bonding is available to finance public land assembly and site preparation for redevelopment when firm financial commitments are not available up front. Moreover, section 108 is involved in almost one-third of all block grant expenditures for economic development.

The UDAG Program might have greater impact if it were restructured in several ways. First, the small cities UDAG Program could be reduced or more carefully targeted. Through fiscal year 1984, the most distressed third of UDAG-eligible small cities received only 40 percent of the UDAG funds awarded to small cities. Many small cities' awards probably were unnecessarily subsidizing relatively rural location choices produced by the market.

Second, reduced UDAG funding for metro communities might be justified, because of the economic development funding that is beginning to flow to cities in the form of repayments on prior UDAG-funded loans. Projected annual repayments of UDAG subsidies provided to developers as loans should reach 40 percent of the fiscal year 1985 UDAG appropriation by fiscal year 1988, but not all cities will share in these funds.

UDAG grants for entitlement communities are tightly targeted. Furthermore, UDAG loan repayments, section 108 loans, and UDAG grants are the primary sources of development subsidy available in many distressed communities.

Third, instead of being repaid to the cities, future UDAG loans could be repaid to the Federal Government, creating a self-renewing source of funding.

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And fourth, UDAG funding of hotel and office space might be restricted in cities that are overbuilt. Locality vacancy thresholds could be established for funding of this space. This provision would affect a substantial number of UDAG deals since over a third involve office space and over 15 percent involve hotels.

This concludes my statement.

[Testimony resumes on p. 39.]

[The prepared statement of Mr. Miller follows:]

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PREPARED STATEMENT OF TED R. MILLER AND J. CHRISTOPHER WALKER

I hold a Ph.D. in Regional Science, a Masters in City Planning, and a B.S. in Engineering. My co-author, Christopher Walker, has a Masters in Political Science. Together, we have over 20 years of experience analyzing urban infrastructure and economic development issues.

Our testimony is divided into three parts. The first presents data on infrastructure spending levels and discusses their implications for infrastructure need. The second discusses the role of infrastructure in economic development. The third presents our assessments of the two Federal programs that provide the largest amount of funding for urban economic development, namely the Community Development Block Grant and Urban Development Action Grant (UDAG) programs.

INFRASTRUCTURE SPENDING AND NEEDS

Infrastructure need is commonly assessed either by examining expenditure patterns or shortfall from engineering standards. Our research does not suggest that the nation is facing an extraordinary period of infrastructure need by either of these criteria.

At least since 1947, infrastructure primarily has been financed by state and local governments, often using Federal grant receipts. As Figure 1 shows, in constant 1982 dollars, state and local infrastructure spending rose steadily from 1947 through 1967, then dropped off and stabilized at the investment levels of the early 1960s. The decline is attributable primarily to reductions in school expenditures and increasing insistence that residential developers supply their own infrastructure. Declining

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expenditures for school construction reflect demographic shifts, not a failure to keep up with infrastructure need. 1/

Figure 1 shows that direct Federal non-defense spending has fluctuated around $10 billion per year. Moreover, as a share of Gross National Product, Federal expenditures were relatively constant throughout the 1970s and even increased during the late 1970s through 1981. Current Federal spending levels are at the 1970's average.

Thus, the trend in public sector infrastructure expenditures does not seem to suggest an overly serious shortfall.

Infrastructure needs estimates based on comparison of conditions and standards vary widely, with the most prominent being the Congressional Budget Office's and Morgan Guaranty Trust's estimates of about $400 to $500 billion, the Associated General Contractors estimate of $900 billion, and Pat Choate's 1981 estimate of $2.5 trillion. These estimates depend critically on the standards underlying them and often reflect changes in what the Federal government defines as acceptable rather than deteriorations in infrastructure condition. Even where infrastructure is in observably poor condition, sufficient demand for it may not exist to warrant fixing it rather than shutting it down. 2/

THE ROLE OF INFRASTRUCTURE IN ECONOMIC DEVELOPMENT

New infrastructure clearly is required for many economic development efforts. Rarely, however, does deteriorated infrastructure have a negative

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1/ Ray Whitman, Carol Shapiro, Virginia Lester, and Ted Miller; Three Studies on Infrastructure Needs and Financing; The Granville Corporation, for HUD Office of Policy Development and Research, June 1984.

2/ Idem.

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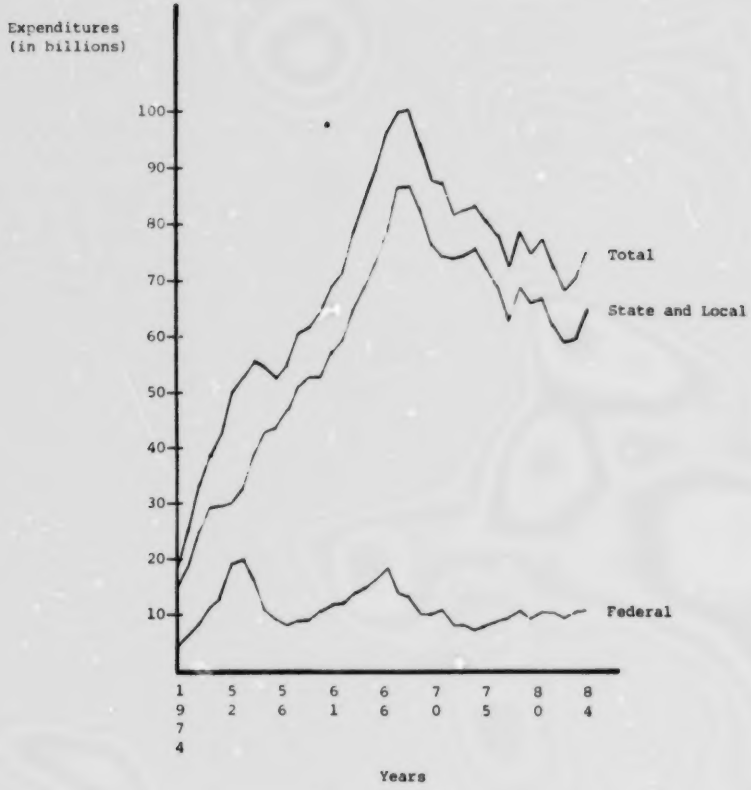
Figure 1 - Trends in Federal and State and Local Public Works Investment (Constant 1982 dollars)



Source: U.S. Department of Commerce, Bureau of Economic Analysis, unpublished data, 1986.

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impact on economic development. For example, the most spectacular recent failure of a portion of the infrastructure network--the 1983 Connecticut Turnpike bridge collapse--resulted in negligible economic losses. 3/

Consistent with these observations, urban economic development expenditures generally provide new infrastructure associated with a specific development rather than addressing standards-based infrastructure needs. This is true of both UDAG expenditures and Community Development Block Grant expenditures used for economic development.

Traditional rationales for Federal financing of infrastructure are to absorb interstate externalities (e.g., interstate highways or water projects) or promote and share the financial burden of new areas of national concern (e.g., pollution control, housing for the homeless). Federal financing of urban economic development, however, is based on the equity-oriented goal of redistributing public investment to localities and neighborhoods that otherwise would be unable to sustain needed levels of expenditure. UDAG expenditures are intended to divert private investment from economically healthy areas to distressed urban locations. Community Development Block Grant expenditures are earmarked for housing, public works, and economic development that benefit low- and moderate-income people or assist in redevelopment of blighted areas.

3/ Rita Bamberger, William Blazar, and George Peterson; Infrastructure Support for Economic Development; American Planning Association, PAS Number 390, September 1985.

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ASSESSMENT OF THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The Community Development Block Grant program has proven value in cushioning the impacts of neighborhood decline. [4] It works well in redistributing urban infrastructure maintenance and service investments to lower income areas where cities might not otherwise sustain an adequate commitment.

The Block Grant program targets poor people much more successfully than most spatially focused programs. Ninety percent of program expenditures meet HUD standards of program benefit to low- and moderate-income persons. The program has been instrumental in prompting cities to invest in renovation of the low-income housing stock. (See Figure 2.) Continuing cutbacks in the inflation-adjusted level of Block Grant expenditures, however, have resulted in corresponding decreases in expenditures on public works--primarily parks, sidewalks, gutters, and sewers--in low-income neighborhoods. At the same time, the Reagan administration has successfully encouraged increased use of Block Grant funds to promote economic development, primarily through direct assistance to private firms. Although this shift has potential benefits in terms of increased urban tax revenues and employment growth, it also appears to have reduced emphasis on neighborhoods as targets or vehicles for community development efforts. [5]

The Administration has proposed terminating the authority, granted under Section 108 of the Housing and Community Development Act, for entitlement

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[4] Raymond Struyk, Neil Mayer, and John Tuccillo; Federal Housing Policy at President Reagan's Midterm, The Urban Institute Press, The Changing Domestic Priorities Series, 1983.

[5] Ibid., p. 85.

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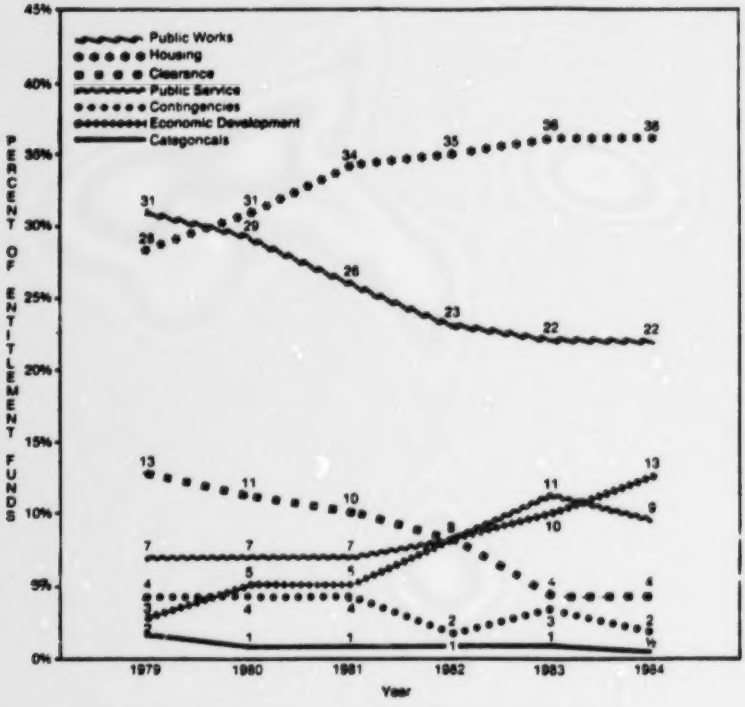
Figure 2

Planned Spending in the CDBG Entitlement Program By Program Activity, 1979-1984



SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development, Office of Program Analysis and Evaluation, CDBG Performance Monitoring and Evaluation Data Bases.

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communities to use future Community Development Block Grant funds as collateral for loans to finance large-scale urban renewal. This authority has become an increasingly important source of urban economic development funding, with roughly 10 percent of the eligible communities borrowing about $120 million annually. No other method except general obligation bonding is available to finance public land assembly and site preparation for redevelopment when firm financial commitments are not available up-front. Indeed, Section 108 is involved in almost one-third of all Block Grant expenditures for economic development, and we strongly recommend its continuation.

ASSESSMENT OF THE UDAG PROGRAM

The UDAG program might have greater impact if it was restructured in several ways.

1. The small cities UDAG program could be reduced or more carefully targeted. Through Fiscal Year 1984, the most distressed third of UDAG-eligible small cities received only 40 percent of the UDAG funds awarded to small cities. At the same time, industrial projects comprised almost half of all small cities awards. Since relatively rural small city sites currently are the locations of choice for industry and the funds are weakly targeted, many UDAG small cities awards probably are unnecessarily subsidizing location choices produced by the market.

2. Reduced UDAG funding for entitlement communities might be justified because of the economic development funding that is beginning to flow to cities in the form of repayments on prior UDAG-funded loans. The proportion of UDAG subsidies provided to developers as loans repayable to the city has risen steadily for several years. It reached 90 percent in Fiscal Year

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1984. Although these loans often are deferable indefinitely if the development proves unprofitable, experience to date suggests that 80 percent will be repaid as scheduled. 6/ Projected annual repayments by Fiscal Year 1988, thus, will be almost 40 percent of the Fiscal Year 1985 UDAG appropriation. Our data show that the cities will recycle these payments to further economic development objectives.

Not all cities will receive substantial UDAG loan repayments. The median city repayment in 1988 will be only $64,000, not nearly enough to provide the public sector's share in a major development deal. However, 96 of the 848 cities scheduled to receive repayments are expected to receive over $400,000 per year.

UDAG grants for entitlement communities are tightly targeted, with over 60 percent of program funds awarded to the most distressed communities through Fiscal Year 1984. Furthermore, given the limits that local charters, state laws, and Federal tax laws impose on the use of general revenues and general obligation bonds to directly support private businesses, UDAG loan repayments, Section 108 loans, and UDAG grants are the primary sources of development subsidy available in many distressed communities.

3. Instead of being repaid to the cities, future UDAG loans could be repaid to the Federal government as a self-renewing source of funding.

4. Unless the tax code is revised to remove its strong encouragement for this type of development, HUD might restrict UDAG funding of hotel and office space, especially in cities that are overbuilt. Locality vacancy thresholds could be established for funding of this space. This provision would affect a substantial number of deals since over a third of UDAG deals involve office space and over 15 percent involve hotels.

6/ J. Christopher Walker; "UDAG Program Paybacks;" The Urban Institute, for the Office of Program Analysis and Evaluation, CPD, DHUD, August 1984.

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Mr. WOLPE. Mr. Peterson.

STATEMENT OF DOUGLAS PETERSON, SENIOR POLICY ANALYST, NATIONAL LEAGUE OF CITIES

Mr. PETERSON. Thank you for the opportunity to appear before you.

In response to your request, I will briefly summarize the major points included in my testimony.

The first point that I would like to make is that, as you are well aware, the new budget procedure dictated by Gramm-Rudman introduces a great deal of uncertainty and unpredictability into the Federal Government. But this pales in comparison to the uncertainty it introduces into the local budget process.

We are one-third of the way into the Federal budget year, and three-quarters of the way in many municipalities' fiscal years they still don't know what their checks will be like for general revenue sharing, sewage treatment and other needed programs this year.

This kind of unpredictability in the funding of these necessary programs defies any type of logical programming and planning for economic development.

This is something that is a great and serious concern. As you go over the hard choices that you are going to have to be making, I would urge that you give this aspect of predictability and early notice to municipalities a great deal of attention. It is of great concern to all our members, from the largest to the smallest.

Cities are concerned about the deficit which is the primary motivator for the situation we are in now. But we urge this issue be addressed with fairness. And one of the primary ways that our organization has seen of doing that is to really look at the $400 billion in Federal tax expenditures. Our policy says that since tax expenditures comprise such a large amount of Federal tax base, that sound fiscal policy requires that they be fully integrated in the congressional budget process.

The exclusion of tax expenditures has been exacerbated by the Gramm-Rudman sequester mechanism, which ignores the impact of these tax expenditures.

The metropolitan areas in the United States generate 80 percent of the income in the United States and, therefore, would have a similar relationship to the amount of tax revenue generated for the Federal Government. At the same time that this type of economic development and growth is being fostered by cities, the cutback in funds to municipalities is growing more rapid. In the past 13 years there has been a real decline in the funds granted to municipalities. I think that fact is often lost in looking at the aggregate of grants to State and local governments as a whole.

We recently completed a poll of 487 elected officials throughout the country. Thirty-nine percent of those officials ranked the loss of Federal aid as the most important budget problem that would be facing them in the next fiscal year. This was before the impact of Gramm-Rudman really became apparent. I think those numbers would now probably show an even greater percentage that have that concern. This was the largest individual response to our survey in terms of budget concern.

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At the same time, over 98 percent of our responding officials are seeing increased or the same, not lessened demands, for emergency relief services to various poor and disadvantaged people within the community. There is one program of highest concern to all cities and this is the scheduled termination of the General Revenue Sharing Program.

According to a 1983 survey, for one-third of the cities general revenue sharing is their only Federal grant. For cities of less than 10,000 population this figure was 62 percent. In one abrupt stroke, the entire Federal finance linkage with many cities will be completely swept away.

We are not talking about a phaseout or phasedown; we are talking about one move that eliminates this funding. General Revenue Sharing is a program that has provided a fiscal shock absorber to American cities. It is allowing the Federal Government to return a small portion of its tax revenues to the areas which generated it.

General revenue sharing allows local elected officials to place these funds in the area of greatest local need. A responsiveness not possible with most centrally designed programs and one which grows increasingly more important as Federal support is reduced in many specialized areas.

Revenue sharing is also a targetted program providing larger per capita grants to jurisdictions whose cities have the lowest per capital income. The poorest jurisdictions, those with per capital incomes less than 50 percent of the national average, received twice the per capita amount in revenue sharing as that received by the most affluent jurisdictions.

I would urge this committee to use its best efforts to support legislation which will provide general revenue sharing a place in the 1987 Gramm-Rudman-Hollings baseline so that it is allowed an opportunity to be measured against other programs during the 1987 budget process.

Without substantial efforts by the Budget Committee and other congressional panels, this centerpiece program with Federal and local cooperation will be terminated by default and not decision.

Thank you very much.

[Testimony resumes on p. 45.]

[The prepared statement of Mr. Peterson follows:]

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PREPARED STATEMENT OF DOUGLAS PETERSON

CHAIRMAN WOLPE, MEMBERS OF THE COMMITTEE, THANK YOU FOR THE OPPORTUNITY TO ADDRESS THIS BUDGET COMMITTEE TASK FORCE. MY NAME IS DOUG PETERSON AND I SERVE ON THE STAFF OF THE NATIONAL LEAGUE OF CITIES, AN ORGANIZATION COMPOSED OF 49 STATE MUNICIPAL LEAGUES AND THEIR 15,000 MEMBER CITIES IN THE UNITED STATES. ALSO, 1,269 CITIES MAINTAIN A DIRECT AFFILIATION WITH THE NATIONAL LEAGUE. THIS TIME PERIOD IS PARTICULARLY CRUCIAL AS YOUR COMMITTEE AND THE CONGRESS ENTER INTO A SERIES OF CRITICAL BUDGET DELIBERATIONS THAT ARE DICTATED BY THE NEW PROCEDURES SET FORTH IN THE GRAMM-RUDMAN-HOLLINGS BUDGET ACT.

YOU HAVE OTHERS WHO WILL ADDRESS SPECIFIC ISSUES OF PHYSICAL INFRASTRUCTURE, TRANSPORTATION AND ECONOMIC DEVELOPMENT. YOU HAVE A NUMBER OF MAYORS OF NLC'S DIRECT MEMBER CITIES WHO CAN PRESENT MORE VIVIDLY THAN I THE INDIVIDUAL PROBLEMS AND PROMISES OF THEIR CITIES. I WOULD LIKE TO ADDRESS SOME CONCERNS WHICH I BELIEVE ARE SHARED BY MOST MUNICIPAL OFFICIALS.

CITY OFFICIALS ARE ACCUSTOMED TO MAKING HARD BUDGET CHOICES, BUT THE CURRENT LEVEL OF UNCERTAINTY IN FEDERAL SPENDING DECISIONS CONFLICTS DIRECTLY WITH ANY RATIONAL URBAN DEVELOPMENT. WE NOW ARE ONE-THIRD THROUGH THE 1986 FEDERAL FISCAL YEAR AND CITIES STILL DO NOT KNOW WITH CERTAINTY WHAT THEIR REVENUE SHARING, COMMUNITY DEVELOPMENT OR OTHER GRANTS WILL BE FOR THE CURRENT BUDGET YEAR. MANY JURISDICTIONS ARE BUDGETING FOR THE NEXT FISCAL YEAR AND THE UNCERTAINTIES OF GRAMM-RUDMAN GROW EVEN GREATER. LOCAL OFFICIALS NEED TO KNOW NOW WHETHER TO SEND OUT LAYOFF NOTICES OR SHELVE REDEVELOPMENT PLANS.

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CITY OFFICIALS SHARE THE CONCERN ABOUT THE NATIONAL DEFICIT AND WISH IT BE ADDRESSED, BUT WITH FAIRNESS. NLC POLICY URGES THAT SINCE THE $400 BILLION IN FEDERAL TAX EXPENDITURES "COMPRISE SUCH A LARGE AMOUNT OF THE FEDERAL TAX BASE, THAT SOUND FISCAL POLICY REQUIRE THAT THEY BE FULLY INTEGRATED INTO THE CONGRESSIONAL BUDGET PROCESS." THIS EXCLUSION OF TAX EXPENDITURES HAS ONLY BEEN EXACERBATED BY THE GRAMM-RUDMAN SEQUESTER MECHANISM WHICH COMPLETELY EXCLUDES TAX EXPENDITURES.

THE CONTINUING DECLINE IN THE RATE OF RETURN OF TAX REVENUES COLLECTED BY THE NATIONAL GOVERNMENT TO CITIES HAS BEEN WELL DOCUMENTED. METROPOLITAN AREAS GENERATE OVER 80% OF INCOME IN THE UNITED STATES, BUT FEDERAL GRANTS TO CITIES HAVE SHOWN A REAL DECLINE IN RECENT YEARS. GRANTS TO CITIES WHEN ADJUSTED FOR INFLATION SHOWED A REAL GROWTH RATE OF ONLY ONE-HALF OF 1% FOR THE EIGHT-YEAR PERIOD FROM 1973 THROUGH 1980 AND HAVE DECLINED SINCE THEN.

NLC HAS JUST COMPLETED A NATIONAL OPINION SURVEY OF CITY ELECTED OFFICIALS. FOUR HUNDRED AND SEVENTY-EIGHT MAYORS AND COUNCILMEMBERS FROM ACROSS THE COUNTRY RESPONDED. THE ATTITUDES OF THESE OFFICIALS (WHO AVERAGE MORE THAN SEVEN YEARS OF ELECTED SERVICE), MAY PROVE USEFUL AS AN INDICATOR OF HOW THEY VIEW FEDERAL SPENDING DECISIONS.

WHEN THESE OFFICIALS WERE ASKED WHICH OF FIVE FACTORS WOULD PLACE THE GREATEST BUDGET DEMANDS ON THEIR CITY BUDGET, THE LARGEST GROUP, 39% RANKED THE LOSS OF FEDERAL AID PROGRAMS AS OF FIRST IMPORTANCE AND THIS WAS BEFORE THE IMPACT OF GRAMM-RUDMAN.

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THE LOSS OF FEDERAL AID IS NOT JUST A THEORETICAL CONCERN FOR THESE OFFICIALS WHO ARE REQUIRED BY LAW TO BRING IN A BALANCED BUDGET ANNUALLY, 38% SAY THAT WITHOUT INCREASING TAX RATES IT WILL NOT BE POSSIBLE TO MAINTAIN EXISTING SERVICE LEVELS, AND ANOTHER 49% SAY THAT THEY WILL ONLY BE ABLE TO MAINTAIN THEIR SERVICES AT EXISTING LEVELS.

AT THE SAME TIME, 98% OF THE ELECTED OFFICIALS SAY THAT THEY SAW INCREASED OR UNCHANGED DEMANDS FOR EMERGENCY RELIEF SERVICES FOR THE DISADVANTAGED.

ONE PROPOSAL WHICH WILL AFFECT CITIES OF ALL SIZES, IS THE SCHEDULED TERMINATION OF THE GENERAL REVENUE SHARING PROGRAM. ACCORDING TO A 1983 NLC SURVEY, FOR ONE-THIRD OF CITIES GRS IS THEIR ONLY FEDERAL GRANT AND FOR CITIES OF LESS THAN 10,000 POPULATION THIS FIGURE WAS 62%. THUS, IN ONE ABRUPT STROKE, THE ENTIRE FEDERAL FINANCIAL LINKAGE WITH MANY AMERICAN CITIES WILL BE COMPLETELY SWEPT AWAY.

GENERAL REVENUE SHARING IS A PROGRAM WHICH HAS PROVIDED A FISCAL SHOCK ABSORBER FOR AMERICAN CITIES. IT HAS PROVIDED THE NATIONAL GOVERNMENT AN ABILITY TO RETURN A SMALL PORTION OF ITS TAX COLLECTIONS TO THE AREAS WHICH HAVE GENERATED THIS INCOME.

GENERAL REVNUE SHARING ALLOWS LOCALLY ELECTED OFFICIALS TO PLACE THESE FUNDS IN THE AREAS OF GREATEST LOCAL NEED, A RESFONSIVENESS NOT POSSIBLE WITH MOST CENTRALLY DESIGNED PROGRAMS AND ONE WHICH GROWS INCREASINGLY MORE IMPORTANT AS FEDERAL SUPPORT IS REDUCED IN MANY SPECIALIZED AREAS.

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REVENUE SHARING IS ALSO A TARGETED PROGRAM PROVIDING LARGER PER CAPITA GRANTS TO THE JURISDICTIONS WHOSE CITIZENS HAVE THE LOWEST PER CAPITA INCOMES. THE POOREST JURISDICTIONS* RECEIVE TWICE THE PER CAPITA AMOUNT AS THAT RECEIVED BY THE AFFLUENT JURISDICTIONS.

I WOULD URGE THIS COMMITTEE TO USE ITS BEST EFFORTS TO SUPPORT LEGISLATION WHICH WILL PROVIDE GENERAL REVENUE SHARING A PLACE IN THE 1987 GRAMM-RUDMAN-HOLLINGS BASELINE SO THAT IT IS ALLOWED AN OPPORTUNITY TO BE MEASURED AGAINST OTHER PROGRAMS DURING THE 1987 BUDGET PROCESS. WITHOUT SUBSTANTIAL EFFORTS BY THE BUDGET COMMITTEE AND OTHER RELEVANT CONGRESSIONAL PANELS, THIS CENTERPIECE PROGRAM OF FEDERAL LOCAL COOPERATION WILL BE TERMINATED BY DEFAULT--NOT DECISION.

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*POOREST DEFINED AS AREAS WHERE THE PER CAPITA INCOME IS LESS THAN HALF THE NATIONAL AVERAGE. AFFLUENT JURISDICTIONS ARE HERE DEFINED AS THOSE WITH RESIDENT PER CAPITA INCREASING OVER 125% OF THE NATIONAL AVERAGE.

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Mr. WOLPE. Thank you very much.

Thank you all for very thoughtful observations. I would like to bring up, too, there are different emphases. Let me ask each of you to respond to the other for a moment. Are there any specific concerns or reactions that you each had or suggestion to policy observations each other have made?

Mr. MILLER. I agree strongly with the gentleman from the National League of Cities. It would be a good idea to get the Federal tax incentives back into the budget.

I, myself, thought it might even be appropriate to set up a tax incentive block grant program whereby each locality is allocated a certain amount of tax incentives, which is the maximum amount of incentives that can go to firms in that jurisdiction. The jurisdiction should have some authority to target who gets those incentives on some sort of competitive basis similar to UDAG.

Mr. KIRBY. I would like to agree with Mr. Peterson's comment about disruptive effects of this current budget cutting process on local planning and programming. Discussing cuts in highway and mass transit programs for the next fiscal year is one thing.

It is another thing to begin cutting back programs with very short notice, particularly programs like the highway program which have a long leadtime for planning and construction. This will be very disruptive to State and local activity if it goes ahead, I believe.

Mr. PETERSON. As I mentioned during the testimony, the comments about predictability and flexibility in funding are very important. I think that in any redesign of programs or evaluation of the programs, that these features be topics of concern.

As I mentioned in my testimony, the difference between Federal fiscal year and those of local jurisdictions causes a lot of problems. I think the difficulty of putting things on hold as we wait is one of the major concerns of our members.

Mr. WOLPE. You identified, Mr. Peterson, by numbers of jurisdictions involved the dependence of both local governments and Federal Government. If you take a closer look by size of city, what is that? Can you break that out in some general fashion?

Mr. PETERSON. I think I can provide more specific figures on that and I will be glad to do that, but the fact I do recall is that the smaller communities have a greater percentage reliance upon general revenue sharing than do the larger communities. It is a greater percentage in their budget.

As you get to the larger communities with more diverse revenue bases, the percentage of reliance is less. However, I think that statement needs to be conditioned by the fact that many large cities are dealing with a lot of revenue sources that by State law or other restrictions are very tightly constrained. Revenue sharing, again, even for those large communities can serve a shock absorber kind of function.

Even though the revenue sharing dollar of today is only worth 39 cents compared to what it was worth when the program was enacted in 1972, that flexibility is an extremely valuable commodity in putting together a local budget and it is something that is rare.

Mr. WOLPE. Mr. Kirby, you make a number of different policy observations, which I appreciate, in the course of your testimony. In

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the early portion you talk about the lowering of Federal shares in some of the grant activity. To what level? What do you have in mind and what would be the impact upon fiscal actions?

Mr. KIRBY. I would recommend, Mr. Chairman, that the Federal contribution be spread more broadly over a wide variety of transportation projects and at a much lower matching level. So, for example, in the mass transit area, rather than putting up 80 percent of the funding for capital expenditures the Federal Government could match all State and local expenditures on legitimate mass transportation projects within a uniform Federal share of about 25 percent. That seems to me to be a more appropriate level in that it would cover all of the costs of Federal conditions that come with the money, and provide some additional assistance and incentive for communities to support mass transit projects.

When we get up to around 80 or 90 percent Federal shares as we have for mass transit capital and the interstate highway program, we bias local expenditure decisions too much toward those particular types of expenditures.

Mr. WOLPE. What would be the reaction of the other analysts to that concept?

Mr. MILLER. I personally agree with it. I think that the way that we currently have our funds set up in transportation encourages capital expenditure when that is not the wisest course. I think that Mr. Kirby's suggestion of converting to more of a spread block grant approach would reverse that inappropriate incentive and make for more cost effective transport in the Nation's cities.

Mr. PETERSON. We have specific policies in various areas that speak to specific programs. I would say those that would invest greater discretion in the local decisionmakers is a trend we would basically be supportive of.

Mr. WOLPE. Dr. Kirby, you suggest the possibility of turning back some Federal highway responsibilities along with some gas tax revenues to the States. Do you have a specific formulation in mind and who is supporting that suggestion at this point?

Mr. KIRBY. I have in mind something along the lines suggested by the Congressional Budget Office and by the American Association of State Highway and Transportation Officials: That the Federal Government could very well focus its attention on a much smaller system of highways of truly national significance. Such a system would include the Interstate System, the primary system, and associated bridges. There really is no strong rationale or need for Federal involvement in parts of the road hierarchy below that system.

If the funds were turned back to the State and local governments, they would have more flexibility in dealing with the expenditure decisions for those levels of roads. I think the State and local governments would support such a policy. Their interest may well be increased considerably with the current pressures on the Federal budget which may cause restrictions on expenditures from the highway trust fund. These are user fees which State and local governments are counting on for highway expenditures. I think they have a reasonable expectation that those funds be made available and not be caught up in this larger budget battle.

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Turning the revenue back, of course, would remove it from the Federal budget debate.

Mr. WOLPE. Do any of the other analysts care to comment on that?

Dr. Miller, you have a somewhat different infrastructure estimate in terms of the portion of spending than was offered earlier by Dr. Choate.

Mr. MILLER. My figures are figures that have just become available from the Bureau of Economic Analysis. They have greatly adjusted the estimates from 1975 forward. It is fairly clear in the current data that infrastructure spending basically had one very big peak in the midsixties. Other than that, since the early sixties, infrastructure spending has been pretty stable in terms of both Federal and State and local infrastructure.

In fact, actually a lot of that peak was a jump in Federal spending. A lot of it related to schools which were in very short supply in the early sixties.

Even in per capita terms—I have just gotten these numbers in the last few days and haven't done a lot of work with them yet—but I know even per capita we are fairly stable, though declining a little bit in our infrastructure expenditure.

I know that Dr. Choate's numbers differ from mine. Two years ago, I would have agreed with his numbers, but as we get more of a time series, I think it is becoming clear that what we were seeing a number of years ago was a period of extremely high interest rates, with cities and States making a wise decision to wait a while until interest rates dropped to go back to a normal rate of infrastructure spending.

[The following table was submitted for the record:]

NON-DEFENSE INFRASTRUCTURE SPENDING BY FEDERAL, STATE, AND LOCAL GOVERNMENTS

(In constant (1972 dollars)

Infrastructure spending	1950	1955	1960	1965	1970	1975	1980	1984
Total (billions of dollars)	38.60	56.86	64.43	90.50	88.30	80.81	77.89	75.60
Per Capita (dollars)	254	337	358	468	413	375	343	320
Percent of GNP	3.5	4.0	4.2	4.7	3.9	3.2	2.5	2.2

Source: The Urban Institute based on unpublished government infrastructure expenditure data obtained from the Bureau of Economic Analysis.

Mr. WOLPE. Are there any other specific ideas that anyone would advance with respect to the financing issue as we try to find some means of finding financing at a time when we are reducing Federal budgets? Any suggestion that you would like to focus the attention of the committee upon?

Mr. KIRBY. With regard to urban transportation, I would like to agree with Dr. Choate's emphasis on looking much more closely on user fees. I believe urban transportation can essentially pay its own way overall if we go about raising the funds correctly.

The gasoline tax, I think, is an excellent source of revenue, not only for highways but also for providing assistance to mass transit. I think the decision to provide some mass transit moneys from the highway trust fund was a move to the right direction, and that local governments also should look to such user fees for supporting mass transit. This is a more logical source than general revenue.

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Mr. WOLPE. Any other suggestion from others?

Mr. PETERSON. It is not an additional suggestion but I would just underline again the importance that we attach to the evaluation of Federal tax expenditures. When you compare the $400 billion that exist in those areas to the roughly trillion dollar budget of the United States there is a tremendous amount of encouragement that is being given through the Tax Code. When you look at the cost of these tax incentives and you look at the encouragement that that gives in the functional areas compared to the direct Federal outlays in that area, the contrast is often startling.

We think the Budget Committee should be involved in evaluating the usefulness and functional quality of those tax expenditures as well as the direct spending in the various areas.

Mr. WOLPE. There is a last general question I would like to focus some attention on for those of this particular panel. What is your assessment of the general fiscal condition of the States, municipalities at this point in time as we look toward the Gramm-Rudman cycle and could you just give us some general reactions to that?

Mr. PETERSON. We are currently conducting a survey which will be completed in about a month of over 1,300 direct member cities and we would be glad to make the results of that survey available to you.

Mr. WOLPE. That would be very helpful.

Mr. PETERSON. In addition, the opinion poll we did of the elected officials indicated they didn't have a great deal of confidence in their local economies and in the national economy. While they expected the economy—a majority expected the economy to continue to grow, they didn't expect the economy to be strong.

They expected to continue to see a moderate growth and obviously that affects their income and many of the sources of city income are not as responsive to inflation and to economic growth as the Federal income tax.

The Federal income tax responds fairly rapidly. It is fairly elastic to increases in income and the local property tax is considerably less responsive to that type of economic activity.

The diversity in the fiscal condition of communities varies broadly. Obviously, the economic conditions of the community are a factor and that pattern is very checkered also; within the same States and regions you see a varied pattern.

Again, I go back to the 39-percent figure that I cited in my testimony. Thirty-nine percent of the officials from the cities of all sizes—there was not any regional or size variation—expected without an increase in local tax rates they would be unable to sustain their current service levels and those current service levels have been reduced substantially over the past few years.

Mr. WOLPE. In addition to current services being reduced, there is also a pattern of increased taxation at the State and local level in response to Federal cutbacks. Would you anticipate the same round of tax shifting if there is another round of budget cuts? What would be the response of local governments to a new round?

Mr. PETERSON. That is a question we are addressing in our current survey but city governments are under a constitutional and legal mandate to balance their budgets every year and that would require them to increase new revenues through taxation, through

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increased use of or increases in existing user fees or the reduction of personnel and they have taken all these steps before, and they will again attempt a balance between those steps but many cities have already cut their service provision to the bone.

That is not to say they won't be forced to cut further. They have to bring in balanced budgets. If they are forced to cut the law requires them to do that if they cannot raise taxes or user fees.

Mr. WOLPE. Dr. Kirby.

Mr. KIRBY. With regard to urban transportation, State and local governments do not have enough resources right now to take care of their investment and operational needs. They are struggling to find more.

Cutbacks in Federal funds will make this problem more difficult. At the very least there will be some difficult transition probiems in adjusting to reduced availability of funds from the Federal level. And even if additional funds can be found through local or State gasoline taxes and other sources there are some distributional effects of the Federal program that may be lost. As an example, many smaller communities require a high percentage subsidy to be able to support mass transit and this comes largely from the Federal Government.

If the Federal program is cut they will have difficulty finding local sources to support mass transit—as evidenced by the fact many of them had no local subsidized mass transit before the introduction of the Federal program.

Mr. WOLPE. Mr. Miller.

Mr. MILLER. I think one thing that is very uncertain at the moment is how successful we will be under Gramm-Rudman-Hollings in getting the Federal Government's drain on the capital markets reduced. If we could succeed with that, it will have significant impacts in terms of local and State ability to afford infrastructure investment without necessarily increasing their total tax revenues, because infrastructure financing costs are very sensitive to the interest rates that are available in the capital market.

One group of localities that I do think may face particularly hard problems are what I call the "slumburbs." These are generally near-in, older suburbs that absorb a lot of lower income people, yet have very little tax base to begin with. I think that particular group of areas may face particularly large problems.

Mr. WOLPE. Thank you very much. I want to again thank all of you for your excellent testimony and you have been very helpful as we will proceed through this process through the weeks ahead. Thank you very much.

Our next panel will be Hon. Terry McKane, mayor, Lansing, MI; Hon. Ernest Morial, president, U.S. Conference of Mayors, and mayor, New Orleans, LA; and Hon. Richard Berkley, mayor, Kansas City, MO.

Mayor Morial.

STATEMENT OF HON. ERNEST N. MORIAL, PRESIDENT, U.S. CONFERENCE OF MAYORS, AND MAYOR, NEW ORLEANS, LA

Mr. MORIAL. Thank you, Mr. Chairman. Thank you for affording us the opportunity to express our views this morning.

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As you know, and I am sure you are very much aware, Federal aid to cities over the last 5 years has declined precipitously. In a variety of ways and a variety of programs—many of which you are familiar with and I shall not bore you with a litany of those programs—Federal spending has declined. The Congressional Budget Office estimates that grants to State and local governments have declined 34 percent from fiscal year 1980 to fiscal year 1985.

However, as dramatic as these cuts are, they do not include the most recent Gramm-Rudman-Hollings reductions which were announced last week which will impact further on cities across this Nation, because of the 4.3-percent across-the-board reduction and 20 percent that is likely for fiscal year 1987 if the automatic sequestration process of Gramm-Rudman-Hollings is followed. They certainly do not include the deferrals and recessions currently pending which would emasculate further the programs for local governments.

I would like to highlight a few of the most important urban programs for our municipalities and cities, those used to upgrade infrastructure, to meet federally imposed mandates and provide human and basic health service to individuals, many of whom receive no other direct Federal aid.

First, I think we should underscore the extreme importance of general revenue sharing because at one time Congress felt these funds were worthless and ineffective. If one would examine what those cities and 39,000 local units which receive local revenue sharing are doing with those funds, one can readily conclude those funds are being used effectively and the program is not worthless.

A significant portion of revenue sharing funds are used for infrastructure projects, water cleanup, construction of facilities to dispose of wastes, making buildings accessible to the handicapped, many of which are mandated by Federal statutes or court decree. Revenue sharing has also been used to compensate for more indirect costs imposed on cities over the last few years.

For example, reductions in Medicare and Medicaid and health programs, including cuts to beneficiaries have made it necessary for local governments to fill the gaps for those individuals in poverty and provide public health care at local hospitals. In many instances general revenue sharing funds are used to close those gaps. Moreover, Federal revenue sharing funds are used to subsidize some activities of the Federal Government in local municipalities. The fact we do not tax Federal property, there are no sales tax on sales at military stores, all of these are factors which I think should be considered as reasons to continue general revenue sharing.

The Conference of Mayors cares about many other programs and activities of the Federal Government, including job training, food stamps, aid for dependent children, and subsidized housing.

Cities have used general revenue funds and block grant funds to fill the gaps which have been caused by Federal spending reductions—to shelter the homeless and provide assistance for those who are in need.

We conducted a survey last year and I will not bother you with those statistics, but I will be happy to make a copy of the U.S. Mayor's survey available to your staff. If we are to have any kind

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of effective system in this Nation, we in the Conference of Mayors strongly believe that general revenue sharing should be a part of that system.

The arguments for the program, each at its inception, as well as those arguments that were made each time the program has been reauthorized or reenacted, those arguments have not changed and they are valid today.

There is still a strong case to be made for local governments because we know better what the needs and the priorities are. Cities do not have a progressive tax base, a broad tax base such as the Federal Government has. Moreover, it is preferable to leave the ultimate decisions for spending as close to the people as possible and we think that is still a good idea today.

We don't think the idea of revenue sharing has changed. To take some of the burden off of regressive local taxes, including property taxes and user fees, is still a good idea. Many local jurisdictions cannot raise their revenues to compensate for a loss of revenue sharing or other Federal funds—because of severe tax limitations placed upon local governments and other limits on local taxing authority.

If revenue sharing is not renewed, cities will be forced to raise taxes and user fees or to cut back on services drastically. We think that if general revenue sharing is not reauthorized, the Congress of the United States is emphatically saying to local jurisdictions we want you to raise taxes and to raise those taxes to the highest levels they have ever been in this Nation.

The programs that will be cut if there is no reauthorization of general revenue sharing are not likely to be the federally mandated programs or police or fire protection or sanitation services, none of the basic services, but rather low income programs, programs affecting the poor, programs affecting recreation, education, libraries and those that affect the poor persons and children in our communities across this Nation.

The Community Development Block Grant Program, as you know, has been used for a variety of important economic development and infrastructure activities in our cities. I am sure each member of this committee is familiar with the utilization of those programs in their cities and how those programs have stimulated economic development, because of the nature of targetting those funds to those areas within our communities which are in need. The UDAG Program, moreover, is an effective way of spending Federal money, particularly because it leverages $6 or $7 of private spending to each $1 of Federal aid.

I could certainly sit here and recite for you a long litany of projects across this Nation where UDAG grants have been made which have stimulated the local economy and, caused substantial reductions in unemployment in those communities. These statistics are a tribute to the UDAG Program and a tribute to this Nation, as well as a tribute to those local governments which have had the initiative to deal with that competitive grant program.

In the area of transportation, affordable public transportation is extremely important. It is primarily important to the poor and working people of this Nation, those who must use public transportation to get to and from their places of employment. As the demo-

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graphics of cities are changing, as we see the movement of jobs from the cities to some of the suburbs, and "exurbs" and beyond, it is imperative that those who live in the cities have a means of transporting themselves to and from places where jobs are being created. We think these programs must be looked at in a comprehensive and systematic manner to such an extent that working together in a unified way they tend to solve some of the problems facing urban America today.

If public transportation systems are insufficient or inadequate, then we cause a decline in the ability of low income, elderly, and handicapped persons to be self-sufficient and supportive of themselves because of their inability to get to the places where there is work and where there is employment.

Public transportation subsidies and operating subsidies are essential to local governments and to the quality of life and the livability of our communities. If there is any reduction in those it will fall harshly upon those least able to cope with the increased cost of public transportation.

We are deeply concerned in the Conference of Mayors about the programs that help cities across this Nation and the residents of urban America, programs such as job training, income support programs, health programs, nutrition and human service programs, as well as subsidized housing. And our staff, Mr. Chairman, is available to work closely with the staff of this committee and to provide them with the resources that we have at our disposal based upon our research and information that we have.

One brief comment on Gramm-Rudman-Hollings. The deficit reduction called for by that law is already being used as an excuse for wiping out all of our important social and urban programs and decades of progress that have been made in this Nation in meeting human needs and the needs of people. There are many other options for reducing the deficit including perhaps a selective tax increase, reduction of foreign aid or perhaps some greater restraint on defense spending. Furthermore, any law that the Congress enacts, the Congress can repeal by a majority vote.

If economic growth slows or national needs dictate, we are confident that the Congress would take another look at Gramm-Rudman-Hollings and make the necessary adjustments or repeal that legislation. It is unfortunate that under Gramm-Rudman-Hollings the programs designated as low income programs and protected under the sequestration process are very few in number and are narrowly defined.

Our definition of low income programs would embrace subsidized housing, community development block grants, job training, summer youth jobs, emergency food/shelter programs and other activities. I would hope, and those of us in the Conference of Mayors hope, that in formulating a budget for 1987, you will agree that these programs should be protected.

Thank you, Mr. Chairman.

[Testimony resumes on p. 59.]

[The prepared statement of Mr. Morial follows:]

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PREPARED STATEMENT OF HON. ERNEST N. MORIAL ON BEHALF OF THE U.S. CONFERENCE OF MAYORS

Mr. Chairman, Members of the House Budget Committee, thank you for this opportunity for the U.S. Conference of Mayors to testify today on some of our very important urban programs.

Federal aid that is channeled through the cities has declined precipitously over the last five years. Programs as diverse as general revenue sharing, public transportation, EPA wastewater treatment grants, UDAG, Community Development Block Grants and assisted housing have all been reduced -- some very substantially. The Congressional Budget Office estimates that grants to state and local governments declined 24 percent from FY80 to FY85.

Yet even as dramatic as these cuts look, they do not include the most recent Gramm-Rudman reductions which were announced last week, another 4.3 percent across the board reduction, nor the 20 percent likely in FY87 if the automatic sequestration process is followed. Nor do they include the many proposed deferrals and recessions, currently pending, which would emasculate these programs further.

I would like to highlight a few of our most important urban programs -- those that are used to upgrade infrastructure, meet federally-imposed mandates and provide basic human and health services to individuals, many of whom receive no other direct federal aid.

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First, I would like to underscore the importance of general revenue sharing. Though most in Congress have occasionally thought of these funds as worthless or ineffective, the fact is that a significant proportion of the funds are used for infrastructure projects. Many of these projects, such as water cleanup, the construction of very expensive facilities to dispose of wastes, making buildings accessible to the handicapped, etc. are mandated by the federal governmen or court decree.

Revenue sharing has also been used to compensate for other more indirect costs imposed on cities over the last few years. The cuts in Medicaid and Medicare, including cuts in beneficiaries, have made it necessary for local governments to fill in the gaps for many individuals in poverty and provide free medical care at public hospitals. In som cities, revenue sharing funds are being used to pay for these skyrocketing health services.

Moreover, revenue sharing compensates in part for various subsides that localities are required to provide to the federal government -- for example, not taxing federal property holdings or sales at military stores.

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Due to federal budget cuts in other areas, including job training, Food stamps, AFDC, and subsidized housing, there has been a rapid increase in the number of poverty families and individuals who are not receiving federal assistance, including many children. Cities have used revenue sharing funds and Community Development Block Grants to fill in the gaps -- to shelter the homeless, to address the needs of the poor and to provide a wide range of services.

In a survey conducted by the Conference of Mayors last year, 45 percent of the cities responding said they would be forced to cut human services and health programs if general revenue sharing were eliminated. Moreover, 60 percent said they would have to cut infrastructure programs.

If we are to have any kinds of an Intergovernmental system at all, then the Conference of Mayors strongly believes that general revenue sharing should be part of that system. The arguments for the program in 1972, when it was first enacted, and 1976, 1980 and 1983 when it was reenacted, have not changed. There is still a strong case to be made for local governments knowing better what their needs and priorities are, that it is preferable in a democracy to keep ultimate spending decisions as close to the people as possible, that it is still a good idea to take some of the burden off more regressive local tax sources, including property taxes and user fees, and that the program is very efficient, with almost no overhead and no administrative costs.

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If revenue sharing is not renewed, cities will be forced to raise taxes and user fees or cut back in a severely regressive way on services. The local programs that will be cut are not likely to be federally mandated ones, or police, fire and sanitation, but rather low income programs, park and recreation, education, library and other activities that benefit poor children and families

Those localities that can increase taxes or user fees would do so, though there are now about half or our cities that are not allowed to by state constitutions, state tax limitations or for other reasons, such as needing a voter referendum which they are unlikely to win. However, in the other jurisdictions, the jump in property tax rates is likely to be high, putting the federal government in the unenviable position of causing the largest one year jump in local taxes that this country has witnessed in decades.

The Community Development Block Grant and UDAG programs are both used for important economic development and infrastructure projects in our cities as well. If they are eliminated or substantially cut, it would bring to a halt urban efforts to encourage private commercial investment in blighted areas, efforts to create jobs for inner city youth and the disadvantaged, and

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result in the termination of many activities in poor residential neighborhoods. These programs have done much to make our cities attractive and livable again--they have fostered haborplace developments and downtown revitalization in many cities, developments which in turn bring people and dollars and jobs back into our cities. Both programs are highly targeted to those jurisdictions with most need of the dollars. Moreover, the UDAG program is an especially efficient form of federal spending, because it leverages six to seven dollars of private spending for each one dollar of federal aid.

Transportation and wastewater treatment grants are important for cities in undergirding economic development efforts. We can't support a growing population or increased business investment in our cities without such programs, to move people efficiently to and from their work, and to provide the necessary federally mandated water treatment plants. Water, sewer and solid waste facilities are one of the major constraints on growth of cities, particularly in the Sunbelt. Moreover, affordable public transit has become increasingly important, as the roads are more heavily trafficked and the price of automobiles continues to rise. Many low income workers and the elderly have become increasingly dependent on public transportation -- buses, subways, people movers, van pools, dial-a-ride and the like. Cutting public transportation capital and operating subsidies will do the most harm to those least able to cope with the increased cost.

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Mr. Chairman, the Conference of Mayors cares deeply about many other programs that help the residents of this country and urban America -- job training, income support programs, health, nutrition and human service programs, and subsidized housing. We would be happy to discuss these activities with the Budget Committee or with your staffs now or at a later date.

One brief comment on Gramm-Rudman. The deficit reductions called for by the Gramm-Rudman law are already being used as an excuse for wiping out all of our important social and urban programs and decades of progress in meeting human needs. There are many other options for reducing the deficit, including selective tax increases, reduced foreign aid or greater restraint in defense spending. Moreover, any law that Congress enacts, it can also change or repeal by majority vote. In the event that economic growth slows or national needs dictate, I would hope that Congress will pursue this course of action.

I think it is unfortunate that the programs designated as low income programs under the Gramm-Rudman sequestration process are so few in number and so narrowly defined. Mayors' definition of low income programs would embrace subsidized housing, Community Development Block Grants, job training, summer youth jobs, emergency food and shelter funds and other activities. I hope this Committee and the Congress in formulating a budget for 1987 will agree with us that these and other programs should be protected.

Thank you for this opportunity for the U.S. Conference of Mayors to testify on the Fiscal 87 budget, a subject of paramount importance for cities around this country. We are willing to work with you and other Members of the Committee in preserving critical infrastructure and development programs, as well as those that meet the needs of our poorest citizens.

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Mr. WOLPE. Thank you very much, Mr. Mayor.

Before turning to questioning, I just wanted to correct an oversight. Joining me here are Congresswoman Barbara Boxer from San Francisco, CA, and Congressman Charles Hayes of Chicago. Glad to have you with us.

I would now like to turn to Mayor Berkley for his testimony.

STATEMENT OF HON. RICHARD BERKLEY, MAYOR, KANSAS CITY, MO, AND CHAIRMAN, ADVISORY BOARD, U.S. CONFERENCE OF MAYORS

Mr. BERKLEY. Thank you very much. I am the mayor of the home of the world champion baseball team of Kansas City, MO. Members of the House Budget Committee, I thank you for the opportunity to offer our views on the priorities which should be reflected in the fiscal year 1987 Federal budget. I recognize the realities of the new Gramm-Rudman law. But the urban programs that we mayors think are important to save do not total anything close to the magnitude of budget savings that are needed to meet Gramm-Rudman-Hollings targets. Eliminating all of them would hardly make a dent in the Federal deficit, but would wreak havoc at the local level.

City programs have been cut dramatically over the last few years, while Federal deficits have obviously continued to climb. Clearly, other villains have fueled the escalating Federal deficits. Cities have already contributed more than their fair share.

That is really what we are striving for is fairness. We all recognize we need to share in the pain that will be inflicted.

As you know, there are several key urban programs that have supported major infrastructure and economic development programs at the local level—UDAG, Community Development Block Grants, and EPA wastewater treatment grant program, several transportation programs, and general revenue sharing.

In my own city, as in cities across the country, we have used Federal funds in innovative ways to support important local projects.

Because they are targeted to poor localities and neighborhoods, Community Development Block Grants have perhaps allowed the greatest amount of creativity in serving the poor.

Although Kansas City's basic annual CDBG entitlement of approximately $10 million is statistically a relatively small portion of the annual city budget of $360 million, these CDBG funds represents a disproportionately significant source of funds specifically targeted to our lower income, economically disadvantaged, and older citizens.

In the past 10 years the city has received $129 million in entitlement funds. Besides a variety of housing programs, the CDBG entitlement has made possible jobs, business development assistance, commercial renewal, and human services relating to the health and welfare of our most needy people. Block grant moneys have also provided a unique source for leveraging public sector resources with both the private sector and other government programs.

The nine UDAG grants awarded to Kansas City totalling nearly $23 million have stimulated well over $125 million in direct private investment, to say nothing of the secondary impact upon our local

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economy, which is very significant. Over 2 billion dollars' worth of construction is currently underway in the Greater Kansas City area, much of it concentrated in the central business district. This downtown development was triggered, I am absolutely convinced, by an initial UDAG grant for the Vista International Hotel project.

Kansas City must complete construction of our third, and last, secondary treatment plant in order to comply with the requirements of the Clean Water Act by the 1988 deadline. We are committed to an annual phased construction schedule which will enable us to complete construction by 1988. We need the Congress to continue to appropriate $2.4 billion per year for this program because the financing of this project is based upon a Federal share of approximately $6 million per year in our city, and obviously significant numbers to other cities. Kansas City is unusual because we have an unusual fiscal year in which it runs from May 1 to April 30.

We are struggling with the fact we are faced with budgeting for only 1½ general revenue sharing payments rather than four. In our current city budget we have general revenue sharing allocated to the following accounts: Economic development; neighborhood development; fire training and prevention; street signing and marking; street lighting; community health centers; legal aid, social services; Kansas City Museum. Those are the kinds of activities that Kansas City very well will have to curtail or eliminate if general revenue sharing is not reauthorized.

The construction of new and the upgrading of existing transportation facilities is just as much a component of economic development as direct development aid. The failure to build airport expansions and runways can prevent a city from attracting tourists, conventions or large businesses. And the termination of Federal programs which support the construction or repair of streets and bridges can mean continued use of unsafe bridges, long commuting delays and undermine efforts to attract new firms to the cities or get existing firms to expand there.

I know that the House Budget Committee is very sympathetic and supportive of low income programs—those Federal income programs that provide a safety net for the poorest of our citizens. But it is important to remember that some of those activities classified in the budget as aid to State and local governments are, in reality, programs that aid the poor. These programs were enacted and have been continued because the Federal Government has a commitment to serving these people and chose to do so by delivering the services through local governments.

In many surveys, citizens have consistently responded that the level of government they trust the most, where they are getting high quality and efficient service, and where they can exert the most control is at the local level. Thus, it continues to make sense to deliver National Government aid by way of local government, where citizens and elected leaders can make sensible decisions on the ultimate use of Federal funds. Only local citizens know what road is in most need of repair, what neighborhoods need help, what types of private sector jobs should be stimulated and where subsidized housing should be located.

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If revenue sharing and other urban programs are eliminated, the result would be a tax shift from the Federal to the local levels; except that many cities, frankly, do not have authority from their States to raise revenues. Even if all of them did, the Nation's private wealth is not necessarily located in the local jurisdictions with the neediest population.

The alternative to local tax increases, if general revenue sharing is eliminated, I think, and we have reason to believe, would be massive service cutbacks. Altogether, nationwide, local government would be forced to lay off 18,000 police officers, 18,000 teachers, 20,000 human service workers, and 26,000 street maintenance workers. The most likely result, if revenue sharing is eliminated, is a combination of local tax increases and service cuts.

Surely we can find a good part of the $4 billion for a program that does as much good as revenue sharing, when we spend over $300 billion for weapons and other military purposes, and when the Federal revenues lost because of tax expenditures total nearly $400 billion.

Thank you, Mr. Chairman, for this opportunity to present our views and the views of the U.S. Conference of Mayors on the fiscal year 1987 budget. Congress should establish its own budget priorities. I do not envy you at all your task of formulating a budget at a time when the Federal deficit must be reduced by $50 billion.

On a smaller scale, I and other mayors continue to make similar painful decisions regarding service cuts and tax increases. The Conference of Mayors would be pleased and appreciative to continue a dialog with you as you struggle to make budget adjustments and formulate a fiscal year 1987 budget that is sensitive to priority urban programs.

[Testimony resumes on p. 68.]

[The prepared statement of Mr. Berkley follows:]

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PREPARED STATEMENT OF HON. RICHARD BERKLEY

Mr. Chairman, Members of the House Budget Committee, I thank you for the opportunity to offer my views on the priorities which should be reflected in the FY87 federal budget.

I recognize the realities of the new Gramm-Rudman law. But the urban programs that we mayors think are important to save do not total anything close to the magnitude of budget savings that are needed to meet Gramm-Rudman targets. Eliminating all of them would hardly make a dent in the federal deficit, but would wreak havoc at the local level.

City programs have been cut dramatically over the last few years, while federal deficits have continued to climb. Clearly, other villains have fueled the escalating federal deficits. Cities have already contributed more than their fair share.

As you know, there are several key urban programs that have supported major infrastructure and economic development programs at the local level -- UDAG, Community Development Block Grants, the EPA wastewater treatment grant program, several transportation programs, and general revenue sharing.

In my own city, as in cities across the country, we have used federal funds in innovative ways to support important local projects.

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Because they are targeted to poor localities and neighborhoods, Community Development Block Grants have perhaps allowed the greatest amount of creativity in serving the poor.

CDBG Block Grant Program

Although Kansas City's basic annual CDBG entitlement of approximately $10 million is statistically a relatively small portion of the annual city budget of $360 million, these CDBG funds represents a disproportionately significant source of funds specifically targeted to our lower income, economically disadvantaged and older citizens. In the past ten years the City has received $129 million in entitlement funds. Besides a variety of housing programs, the CDBG entitlement has made possible jobs, business development assistance, commercial renewal, and human services relating to the health and welfare of our most needy people. Block grant monies have also provided a unique source for leveraging public sector resources with both the private sector and other government programs.

Urban Development Action Grants

The nine (9) UDAG grants awarded to Kansas City totalling nearly $23 million have stimulated well over $125 million in direct private investment, to say nothing of the secondary impact upon our local economy. Over $2 billion worth of construction is currently underway in the greater Kansas City area, much of it concentrated in the central business district. This downtown development was triggered by an initial UDAG grant for the Vista International Hotel Project.

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EPA Construction Grants

Kansas City must complete construction of our third, and last, secondary treatment plant in order to comply with the requirements of the Clean Water Act by the 1988 deadline. We are committed to an annual phased construction schedule which will enable us to complete construction by 1988. We need the Congress to continue to appropriate $2.4 billion per year for this program because the financing of this project is based upon a federal share of approximately $6 million per year.

General Revenue Sharing

Kansas City must adopt its annual budget by May 1. Our revenue projection is down, primarily due to declining natural gas prices, which directly affects our utility tax receipts. At the same time, we are struggling with this we are faced with budgeting for only 1 1/2 General Revenue Sharing payments rather than 4. In our current City budget we have General Revenue Sharing allocated to the following accounts:

Economic Development
Neighborhood Development
Fire Training and Prevention
Street signing and marking
Street lighting
Community Health Centers
Legal Aid
Social Services
KC Museum

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Those are the kinds of activities that Kansas City will have to curtail or eliminate if General Revenue Sharing is not reauthorized.

The construction of new and the upgrading of existing transportation facilities is just as much a component of economic development as direct development aid. The failure to build airport expansions and runways can prevent a city from attracting tourists, conventions or large businesses. And the termination of federal programs which support the construction or repair of streets and bridges can mean continued use of unsafe bridges, long commuting delays and undermine efforts to attract new firms to the cities or get existing firms to expand there.

I know that the House Budget Committee is very sympathetic and supportive of low income programs -- those federal income programs that provide a "safety net" for the poorest of our citizens. But is is important to remember that some of those activities classified in the budget as aid to state and local governments are, in reality, programs that aid the poor. These programs were enacted and have been continued because the federal government has a commitment to serving these people and chose to do so by delivering the services through local governments.

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In many surveys, citizens have consistently responded that the level of government they trust the most, where they are getting high quality and efficient service, and where they can exert the most control is at the local level. Thus, it continues to make sense to deliver national government aid by way of local government, where citizens and elected leaders can make sensible decisions on the ultimate use of federal funds. Only local citizens know what road is in most need of repair, what neighborhoods need help, what types of private sector jobs should be stimulated and where subsidized housing should be located.

If revenue sharing and other urban programs are eliminated, the result would be a tax shift from the federal to the local levels; except that many cities do not have authority from their states to raise revenues. Even if all of them did, the nation's private wealth is not necessarily located in the local jurisdictions with the neediest population.

The alternative to local tax increases, if general revenue sharing is eliminated, would be massive service cutbacks. Altogether, nationwide, local government would be forced to lay off 18,000 police officers, 18,000 teachers, 20,000 human service workers and 26,000 street maintenance workers. The most likely result, if revenue sharing is eliminated, is a combination of tax increases and service cuts.

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Surely, we can find $4 billion for a program that does as much good as revenue sharing, when we spend over $300 billion for weapons and other military purposes, and when the federal revenues lost because of tax expenditures total nearly $400 billion.

Thank you, Mr. Chairman, for this opportunity to present my views and the views of the U.S. Conference of Mayors on the FY87 budget. Congress should establish its own budget priorities. I do not envy you your task of formulating a budget at a time when the federal deficit must be reduced by $50 billion. On a smaller scale, I and other mayors continue to make similar painful decisions regarding service cuts and tax increases. The Conference of Mayors is willing to continue a dialogue with you as you struggle to make budget adjustments and formulate an FY87 budget that is sensitive to priority urban programs.

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Mr. WOLPE. Thank you very much.

Now I invite the testimony of my neighbor, Mr. Mayor McKane.

STATEMENT OF HON. TERRY McKANE, MAYOR, LANSING, MI

Mr. MCKANE. Thank you very much.

Mr. Chairman, members of the task force, it is a pleasure to be here. I am mayor of the city of Lansing, the capital of the great State of Michigan, and as the chairman pointed out, the largest city in his home district, the third district.

I was asked to respond to four questions this morning in 5 minutes or less. That is kind of like a campaign where you go to meet the candidates meeting and they say give us your vision of the future of Lansing and you have 60 seconds.

This is really a large problem that the Congress is facing and that the administration is facing and we feel the repercussions throughout the country, especially at the local level. The first question pertains to the most important Federal sources of funding used by Lansing, to foster economic development and to enhance public infrastructure.

I would say the city of Lansing has used all available Federal funds to encourage economic development and to upgrade our public infrastructure. The three most significant funding sources in terms of the dollar impact include the Environmental Protection Agency clean water funds, the community development block grant funds and urban development action grants.

We have also used Economic Development Administration funds, Federal urban systems and critical bridge funds. We have received in excess of $184.3 million to the city of Lansing in meeting public infrastructure and economic development needs since the inception of these various programs.

The second question: In what ways has Lansing used these Federal funds to stimulate new economic development and to create new jobs? Federal funds have been crucial to stimulating new economic development in Lansing.

In 1979 the city was under an order from the State department of natural resources restricting all growth in the city unless we provided improvements to our waste water system. The EPA grant of $89.2 million currently being implemented was essential in allowing General Motors Corp. and Motor Wheel Corp. to expand because without adequate treatment facility they could not treat their discharge and be in compliance with the national pollution discharge elimination permit.

In addition, residential growth would have been curtailed or stopped completely and the city would have been unable to develop the new convention center and hotel currently under construction in the center of our downtown. The city has used several Federal funding sources together with local funds to accomplish economic development objectives.

An example is the retention of the Motor Wheel Corp., Lansing's second largest employer. Several years ago Motor Wheel was considering the closing of its Lansing plant because of low productivity, labor/management problems, technically obsolete equipment,

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inadequate site and parking and poor street access for receiving and shipping activities of the plant.

Because of the availability of Federal funds, the city was able to put together a package to preserve this corporation in Lansing.

CDBG funds were used to clear 9 acres of dilapidated housing to provide parking for Motor Wheel and to help construct a new access road to the plant. EDA title IX funds were used to fund a quality of worklife program with Motor Wheel being the first company to go through the program. EDA public works funds were used in conjunction with city funds to construct a new public sanitary and storm sewer as well as assist in the financing of a new access road to the plant.

Motor Wheel, and its parent company, Goodyear Tire & Rubber, responded by investing $42 million in new equipment at the Lansing plant, thereby insuring 1,300 jobs for our community. Approximately $3,500 in public funds was invested for each job retained, for a total public investment of $4.55 million.

The city has also used Federal funds to stimulate new investment. The 100 block development now under construction in downtown Lansing, contains a hotel and office building, representing $33 million in private investment, for which the city received $10.3 million in UDAG funds, a majority of which is being invested in a new $15 million convention exhibition center, the largest outside of Detroit, near the new hotel. Without UDAG funds, the project would not have been built and the city would not receive the economic benefit of 900 new jobs. The new convention business alone will bring at least $12 million annually to our community. These examples point out the importance of these funds to our community.

The third question, Have recent budgetary decisions at the Federal level affected the ability of your city to effectively plan and carry out economic development initiatives? If so, how?

The city of Lansing, under our State constitution, must by law have a balanced budget annually. The major current impact to the city of Lansing and other local units of government is the decision not to renew general revenue sharing. In terms of the city of Lansing, this means that general fund moneys that would have been spent by the city on public improvements in support of economic development activities will be directed to meet operating expenses.

Because of the transfer of funding for programs from Federal to local sources, Lansing's budget process will review the city's programs to determine their cost effectiveness. Lansing must then determine which programs will be maintained at local costs. We receive $2.8 million a year in revenue sharing which is about 5 percent of our budget.

If we do not continue to receive that we are talking, as prior speakers have said, of either continuing to reduce services which we have been doing these last 4 years in my term as mayor anyway in order to maintain the same property tax rate for the last 5 years. We will have to reduce further the number of employees which we have already done by some 10 percent in the last 4 years.

This would call for another 10 percent cut. Or we are going to have to raise the property tax rate.

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The fourth question, Given the recent experience of American cities in general, and the experience of Lansing in particular, what recommendation would you offer the Congress as it begins work on the fiscal year 1987 budget resolution?

Clearly, Congress and the administration must develop a plan for reducing the Federal budget. As chief executive of a major city in a State that has been severely distressed during the recent recession, I am keenly aware of the difficulty in matching expenses to revenues; and am sympathetic to the task that you are facing. I recognize that each interest must bear its share of the burden if the budget crisis is to be resolved.

We have been through this ourselves. We know something of what it is all about. Recognizing that municipalities must absorb a share of the Federal cuts, I have begun a process in my city to review our local programs for continuation, reduction, or elimination, if a local cost assumption becomes necessary.

I would only recommend that your committee channel the available funds for economic development to support the replacement and redevelopment of existing infrastructures and communities. Many Federal programs—and certain of our State programs—have been made available to all cities. If cutbacks are mandated, I recommend that Congress earmark the available funds for reinvestment in older urban communities, rather than supporting new development in undeveloped, or newly developed areas. Redevelopment of an area is inherently more expensive than new, first-time construction.

Land must be cleared, structures remodeled, and multiple properties assembled in older communities, prior to undertaking major development programs. This added expense makes new construction in undeveloped areas generally less expensive.

By dedicating the available resources for older communities, the Federal Government can assist older communities in maintaining their own viability. I feel that the most cost effective policy for the Federal Government to pursue is leveraged assistance to the private sector, to reduce the cost differential between first-time construction and redevelopment in older communities. This policy will allow communities to maintain their livability, or quality of life at the lowest public expense.

I wish to emphasize that in my opinion and in the opinion of my fellow mayors, cities are not merely a special interest group. The majority of all American citizens live in the cities of our great land. We need revenue sharing, we need CDBG, we need UDAG.

Thank you very much.

[The prepared statement of Mr. McKane follows:]

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PREPARED STATEMENT OF HON. TERRY MCKANE

1. WHAT ARE THE MOST IMPORTANT FEDERAL SOURCES OF FUNDING USED BY LANSING TO FOSTER ECONOMIC DEVELOPMENT AND TO ENHANCE PUBLIC INFRASTRUCTURE?

The City of Lansing has used all available federal funds to encourage economic development and upgrade our public infrastructure.

The three most significant funding sources in terms of the dollar impact include: Environmental Protection Agency "Clean Water" funds; Community Development Block Grant funds and Urban Development Action Grants. Other important sources include: Economic Development Administration funds; Federal Urban Systems and "Critical Bridge" funds.

The above funding sources have provided in excess of $154.3 million to the City in meeting public infrastructure and economic development needs since the inception of these programs.

2. IN WHAT WAYS HAS LANSING USED FEDERAL FUNDS TO STIMULATE NEW ECONOMIC ACTIVITY AND TO CREATE NEW JOBS?

Federal funds have been crucial to stimulating new economic activity. In 1979 the City was under an order from the Department of Natural Resources restricting all growth in the City without improvements to our wastewater system. The EPA grant of $89.2 million dollars currently being implemented was essential to allowing General Motors and Motor Wheel Corporation to expand because without adequate treatment plant facilities the City could not treat their discharge and be in compliance with the National Pollution Discharge Elimination System Permit (NPDES). In addition, residential growth would have been curtailed, and the City would have been unable to develop the new Convention Center and hotel currently under construction.

The City has used several Federal funding sources together with local funds to accomplish economic development objectives. An example is the retention of the Motor Wheel Corporation, Lansing's second largest employer.

Several years ago Motor Wheel was considering the closing of its Lansing Plant because of low productivity, labor management problems, technically obsolete equipment, inadequate site and parking, and poor street access for receiving and shipping activities of the Plant.

Because of the availability of Federal Funds, the City was able to put together a package to preserve this corporation in Lansing. CDBG funds were used to clear nine acres of dilapidated housing to provide parking for Motor Wheel and help construct a new access road to the plant. EDA Title IX funds were used to fund a quality of work life program with Motor Wheel being the first company to go through the program. EDA public works funds were used in conjunction with City funds to construct a new public sanitary and storm sewer as well as assist in the financing of a new access road to the plant.

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Motor Wheel responded by investing $42 million in new equipment at the Lansing plant, thereby insuring 1,300 jobs for our community. Approximately $3,500 in public funds was invested for each job retained, for a total public investment of $4.55 million.

The City has also used Federal funds to stimulate new investment. The 100 Block Development now under construction in downtown Lansing, contains a hotel and office building, representing $33 million in private investment, for which the City received $10.3 million in UDAG funds, a majority of which is being invested in a new $15 million Convention Exhibition Center near the new hotel. Without UDAG funds, the project would not have been built and the City would not receive the economic benefit of 900 new jobs. The new convention business alone will bring $12,000,000 annually to our community.

These examples point out the importance of these funds to our community.

3. HAVE RECENT BUDGETARY DECISIONS AT THE FEDERAL LEVEL AFFECTED THE ABILITY OF YOUR CITY TO EFFECTIVELY PLAN AND CARRY-OUT ECONOMIC DEVELOPMENT INITIATIVES? IF SO, HOW?

The City of Lansing must, by law, have a balanced budget annually. The major current impact to the City of Lansing and other local units of government is the decision not to renew General Revenue Sharing. In terms of the City of Lansing, this means that general fund monies that would have been spent by the City on public improvements in support of economic development activities, will be directed to meet operating expenses.

Because of the transfer of funding for programs from Federal to Local sources, Lansing's budget process will review the City's programs to determine their cost effectiveness. Lansing must then determine which programs will be maintained at local costs.

4. GIVEN THE RECENT EXPERIENCE OF AMERICAN CITIES IN GENERAL--AND THE EXPERIENCE OF LANSING IN PARTICULAR--WHAT RECOMMENDATION WOULD YOU OFFER THE CONGRESS AS IT BEGINS WORK ON THE FISCAL YEAR 1987 BUDGET RESOLUTION?

Clearly, Congress and the Administration must develop a plan for reducing the Federal budget. As Chief Executive of a major City in a State that has been severely distressed during the recent recession, I am keenly aware of the difficulty in matching expenses to revenues; and am sympathetic to the task that you are facing. I recognize that each interest must bear its share of the burden if the budget crisis is to be resolved. Recognizing that municipalities must absorb a share of the Federal cuts, I have begun a process in my City to review our local programs for continuation, reduction, or elimination, if a local cost assumption becomes necessary. I would only recommend that your committee channel the available funds for economic development to support the replacement and redevelopment of existing infrastructures and communities. Many Federal programs (and certain of our State programs) have been made available to all cities. If cutbacks are mandated, I recommend that Congress earmark the available funds for reinvestment in older urban communities, rather than supporting new development in undeveloped, or newly developed areas. Redevelopment of an area is inherently more expensive than new, first time construction.

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Land must be cleared, structures remodeled, and multiple properties assembled in older communities, prior to undertaking major development programs. This added expense makes new construction in undeveloped areas generally less expensive. By dedicating the available resources for older communities, the Federal Government can assist older communities in maintaining their own viability. I feel that the most cost effective policy for the Federal Government to pursue is leveraged assistance to the private sector, to reduce the cost differential between first time construction, and redevelopment in older communities. This policy will allow communities to maintain their "livability", or "quality of life" at the lowest public expense.

SOURCE OF LANSING

FEDERAL FUNDS

EPA Clean Water	$ 89.2	million
CDBG includes $700,00 Jobs Bill	37.8	
UDAG	12.9	
EDA includes Public Works	8.2	
Urban Systems	3.5	
Critical Bridge	2.7	
	$ 154.3	

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Mr. WOLPE. Thank you very much, Mayor McKane.

Thank you, all three panelists for excellent testimony. We are trying to flesh out, make more real and less abstract, the potential impact of the contemplated budgetary decisions that are in process right now. I think all of you have helped flesh that out for us. I would like to ask one kind of general question.

Is it possible to generalize in terms of the impacts that have already occurred as a consequence of the earlier round of Federal budgetary cutbacks on local service delivery, what areas have been most impacted up to this point? What areas have been able to pretty much withstand the budgetary reductions?

Second, along the same lines, would you anticipate the same set of priorities being reflected in the budget reductions ahead of us, where would you anticipate the greatest reductions of service occurring?

Mr. MORIAL. Mr. Chairman, based on a survey conducted by the Conference of Mayors last year, 45 percent of the cities said they would be forced to cut human services and health programs if general revenue sharing were to end. Sixty percent said they would have to cut infrastructure programs.

In my opinion, I think there would be a variety of areas where reductions might be made, particularly as it pertains to general revenue sharing because general revenue sharing, as I am sure you know, is used by various communities in a variety of ways for a number of things. As I indicated in the course of my testimony, in my opinion, the human services areas would be the ones that would be impacted first.

I doubt very seriously if any city administration would move to reduce basic services such as police or fire protection or sanitation services. The cuts are more likely to fall in the area of human services which will certainly impact more devastatingly on our community. The poor are always the ones who are damaged when such situations as this occur because their voice is not heard as vividly nor as strongly as others.

They don't have advocates except to the extent that those of us in government advocate for them. I would think that in the area of human services and problems pertaining to the elderly, health care, issues pertaining to homelessness, which is rising in this Nation dramatically, in my opinion those would be the areas where we would make some reductions though those are the areas where cuts should not be made but it is the political realities of the situation.

Mr. WOLPE. Mayor Berkley, Mayor McKane, would you have any additional comments?

Mr. BERKLEY. It is hard to say exactly which areas in the future would be impacted the most because I think that as we go through our own budget process just as you are going through yours, certainly human services would be affected. Infrastructure, I think, at least in Kansas City, could possibly bear a significant brunt of reduction.

The need for police and fire, additional personnel, would certainly be affected. There is no doubt we have a very large geographic area with some 316 square miles, and yet our ability to provide the number of police officers would certainly be affected.

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I think the various housing programs, particularly with community development block grant funds being dramatically cut, would be the major impact point.

Mr. WOLPE. Mayor McKane.

Mr. MCKANE. It is hard to say, but looking back at the last 4 years of my administration, first administration as mayor and now moving into the second one as we begin another budget preparation time period, I would say that we try to cut across the board when we have to cut back and we have done this in the last 4 years.

We have cut back on the police department some 15 percent. We have cut back on the fire department more than 10 percent.

We have cut back public service, parks and recreation. We have cut across the board. At the same time we have tried to maintain and increase our emphasis on human service programs in our contracts with the human service agencies because we find as they receive Federal cuts, State cuts, county cuts, many agencies are receiving 80 to 90 percent of their funding from the city of Lansing, so if we were to start cutting them back they would simply go out of existence so we maintain a very high level of human service dedication, if you will.

We have tried to increase since we have fallen behind in our infrastructure in the last few years, we have tried to increase the emphasis there so we followed a course perhaps differently than some other cities. We did cut back in the public safety areas and some of our other essential city services and we just won't be able to do that.

We won't be able to cut much deeper and probably won't be able to hang on much longer doing that, however. We cut out the proverbial fat, if you will, that the public talks about, and the Federal Government talks about sometimes in talking about cities, and we are down through the muscle and into the bone right now.

Mr. WOLPE. One last question. It is clear to all of us that the deficit targets of Gramm-Rudman are going to impose some major stringencies on the entire budget. What would be your suggestion to the Congress? How would you propose we best respond to the new law that is in place?

Mr. MORIAL. Mr. Chairman, I think to a large extent, Gramm-Rudman-Hollings is a sophisticated legislative method of impoundment. It is not different than what was done in the previous administration with the impoundment process.

I think that Congress should have the right to deal with those issues on an ad hoc basis as they arise based upon needs. I don't think there should be an automatic percentage statutorily mandated.

I think when Gramm-Rudman-Hollings was adopted, it represented an abdication of the leadership functions of the legislative body by a broad sweep of the brush, rather than dealing with spending and program issues on an ad hoc basis.

Now, we recognize the issue of the deficit and we feel it painfully in the cities of America because we have been the victims of the deficit problem. We have borne the pervasive spending cuts, the broad-based reduction of programs, the intergovernmental programs that are of assistance to cities. The fact is that whenever

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there is a deficit, cuts are visited upon the cities more severely. We had a slight deficit in this country when general revenue sharing was first enacted.

There was a deficit, but the deficit has continued to grow. I don't think that enactment of Gramm-Rudman-Hollings is the proper approach to deal with the problem of the deficit. I know there is great difference of opinion on the Hill and particularly on Pennsylvania Avenue on the issue of taxes, but there is an opinion among economists and a wide range of others that one way to deal with the budget deficit is through some selective tax increases and I think Congress should not impose upon itself responsibilities to deal with those issues and to look at the matter in a much broader way than simply Gramm-Rudman-Hollings and the injunctions of Gramm-Rudman-Hollings in the sequestration process.

Mr. WOLPE. Thank you. Are there any others?

Mr. BERKLEY. I would make three brief comments.

One, I would urge programs not be completely eliminated. We recognize that there are the needs to reduce the moneys that are available to us and we are not arguing that point, but in some cases the complete elimination of a program that has been very effective can be very devastating on whether that type of activity can continue in a community.

Second, I would urge that you look at the really end result of various programs, particularly those that had various incentives to them, in other words, the UDAG Program just to take an example, not just look at the line in the budget it refers to, but try to analyze it.

I know in many cases it is very difficult, what the real economic impact of that program has been. I think in many cases they have been dollars not just UDAG programs, but many other programs have generated a great deal of economic activity in communities that have been very beneficial, not only to the local communities, but actually have ended up in net bottom line pluses for the Federal Government's resources.

Third, I would say that the military area always concerns me. Obviously, we need a strong defense. I don't think there is any feeling to the contrary about that, but I think there is a broad feeling that the efficiency of purchasing and the cost controls in purchasing of military supplies has room for significant, greater oversight and good business practices that we would advocate more of and greater efficiency.

Mr. MCKANE. I was just saying that I think that every Federal requirement should share in providing a solution to the problem. I stated already that I cut back on police and fire, which is equivalent to the Defense Department on a city level, and we have not suffered significantly because of it.

After a severe cutback in the police department, the crime rate went down over a 3-year period, and is starting to level off now.

I don't think there is a cause-and-effect relationship, but I also believe in a strong national defense, but can we afford to have declining cities, and potentially rioting in the streets while we are providing a strong national defense?

No Federal department should be given a blank check, and in my opinion, the Defense Department has received virtually a blank

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check for many, many years. I used to be a member of that as an officer in the Army several years ago, and that needs to change.

Mr. MORIAL. I think I should plug Superbowl City since Congressman Hayes, your mayor will be coming there soon.

Mr. WOLPE. Let me welcome our distinguished panelists soon, and let me begin with Congresswoman Barbara Boxer.

Mrs. BOXER. It is indeed my great pleasure and honor to introduce to the panel the mayor of the great city of San Francisco. She is one of my most famous constituents.

The mayor and I would like to remind everybody, including Mayor Washington and Congressmen Russo and Hayes, that San Francisco is still the reigning Superbowl champion. Give us a break. We still can enjoy that.

I do want to say that the mayor is not only a great leader for San Francisco, but she has been a fantastic spokesperson for the mayors of all the cities of this country, and it is a great pleasure to see you here, Dianne.

Mr. WOLPE. Now, I would like to introduce our guests, Charles Hayes of Chicago.

Mr. HAYES. Thank you, Mr. Chairman, I would like to introduce to this task force the mayor of the city which will be home to the next Superbowl champion. He is a former Member of the House of Representatives, and a man of great courage and dedication; one who has since becoming mayor of what I still consider to be the second largest city in the United States, commanded great attention from all over the world. I would like to present to you that great champion of people who has been struggling with the budget problems in the city of Chicago—and even before Gramm-Rudman, Mayor Harold Washington.

Mr. WOLPE. I am delighted to welcome both Mayor Feinstein and Mayor Washington to the panel. I understand you have a meeting right now, and you will be joining us in a few minutes.

Let me introduce Congressman Marty Russo for a just a few minutes.

Mr. RUSSO. Mr. Mayor, it is a pleasure to have you before our Budget Committee. As a member of the Budget Committee, I would suspect you and I will be working very closely over the next several months to make sure the great city of Chicago doesn't suffer unduly because of the fiscal policies of this administration.

We have had two exciting things happen in Chicago since your administration. The White Sox got close to winning a pennant, and now we have the Chicago Bears favored in the Superbowl.

Since you have been around, you have injected a little excitement in the city of Chicago and so, we welcome you here, Mr. Mayor. We look forward to your testimony and your assistance in formulating programs and plans to deal fairly with the problems this great city will face under this new budget process.

STATEMENT OF HON. HAROLD WASHINGTON, MAYOR, CHICAGO, IL

Mr. WASHINGTON. Thank you, Congressman.

I feel out of sorts sitting on this end of the desk. I had so many pleasant moments with you on that side.

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Let me bestow upon my wonderful colleague, and one of the finest mayors in captivity, I give this to Mayor Feinstein from the great city of San Francisco, housed within it the present champion of the football league, so I bestow this upon you, Mayor Feinstein.

I should add, I went out to San Francisco and the division playoff between the Bears and the San Francisco 49'ers, the good mayor took me for a holy ride, I lost face, dollars, everything else out there.

Mr. WOLPE. Mr. Mayor, I am also pleased to welcome to our panel this morning Mayor George Voinovich of Cleveland, former president of the National League of Cities, and Mayor Steven Carlson of Jamestown, NY, who has been particularly involved over the years with some very creative use of urban development action grant program, and we want to welcome all of you to the panel.

We are trying very hard to understand more clearly the implications of some of the budgetary decisions that are contemplated, and we look forward to receiving your testimony this morning.

If you would like to proceed, Mayor Washington, I have been told that you wish to move away from the hearing for a few moments and then to return.

Mr. WASHINGTON. I will go ahead and do it now. Thank you, Mr. Chairman, for inviting us here on what we consider to be an extremely important hearing. I had the pleasure of hearing most of the testimony of Mayors Morial, Berkley, and McKane, and I suppose my colleagues would agree that they cover the waterfront, but repetition in this area is certainly called for.

We are being confronted with one of the most devastating Federal programs which have ever hit the cities, and the American people should know the debilitating effect of the proposed cuts by virtue of the Gramm-Rudman Act will wreak upon our cities.

If we use the words "devastating," "debilitating," words to that effect, that it aptly describe the total effects as we go from one city to another, large, small, intermediate.

Our budget office has calculated that Chicago stands to lose as much as $155 million in Federal funding in 1986 as a result of the specific program cuts and the across-the-board cutbacks mandated by Gramm-Rudman.

Such a loss, amounting to nearly 8 percent of the city's budget, would be devastating, particularly when combined with cutbacks we have undergone in the past several years.

And the impact would be far larger than appear by numbers alone. What would have to be eliminated first is the creative, lifegiving, forward-looking piece of city government, the programs that cost relatively little and train our youth, feed our hungry, build low income housing for our underemployed, and encourage our teenage mothers to feed their babies properly.

We are talking about our programs that take relatively small amounts of dollars and leverage them with private dollars, and with community sweat and commitment.

We are talking about the $2.6 million spent on our new antigang program in 1985, dollars that funded 81 community based nonprofit agencies to run youth programs with volunteer help from the community.

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In 1985, this antigang program served over 12,000 youth and helped us reduce gang-related murders by 20 percent, helped us reduce gang-related robberies by 20 percent, and gang-aggravated batteries down 16 percent, and reduce part 1 crimes, which is a general category, down 14 percent.

We can only estimate what the much larger Gramm-Rudman cuts expected in 1987 and further would do to the fabric of city life.

The President's recommendations and Gramm-Rudman would tear the guts out of local government. In Chicago, we would be left with essential services only: Police, fire, sanitation, health, and bare social services.

Our development agencies, housing, economic development, and planning, would face elimination.

The elimination of revenue sharing alone, which provided us $67 million last year, would mean that a dozen city departments would lose about one-third of their funding, severely affecting health care, garbage pickup, emergency services, services to the elderly, and consumer programs.

The one-third cut of $37 million we anticipate in the Community Development Block Grant Program this year will force cuts in literally dozens of programs, including elimination of a major neighborhood health center, the end to our home-delivered meal program for seniors, cuts in day care centers, food packages, and so on.

We estimate that $100 million in private sector funds and as many as 7,400 jobs will be lost with the elimination of UDAG.

Elimination of $24 million in housing funds will devastate our creative housing programs, which are beginning to turn around the decline of Chicago's older housing stock. Elimination of the rental rehab program alone will result in the loss of $20 million in private funding and a loss of 550 rehabilitated housing units.

The list goes on and on. You know the general framework. Between 1981 and 1986, the community development block grant budget has dropped 20 percent, while the defense budget has more than doubled. This does not constitute equity to me, or to the people of the city of Chicago.

Less than 10 percent of the Federal budget goes to programs assisting low income people. Yet one-third of the budget cuts come from programs that serve these people. That also is not equity.

Another way to underscore the inequities in Federal policy is to consider this startling comparison: In 1977, for every dollar that was committed to defense, 26 cents was committed to low income housing; in 1980, that housing figure dropped to 19 cents; in 1985, it was 1.5 cents.

In the President's fiscal year 1986 budget, the President's latest proposal, it was less than 1 cent.

We all recognize the need for a balanced Federal budget, but it must not be balanced on the backs of our urban centers. You heard that before. That will be a refrain you will hear for weeks to come.

In Chicago, we have worked hard over the past 2½ years to eliminate our city's budget deficit. We have cut our work force by one-seventh, or 6,500 employees. We have done our utmost to cut waste and improve services. But we cannot cut much further without damaging the quality of life in Chicago.

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Now we are in the throes of a terrific public struggle in which we are torn between trying to expand our real estate property taxes, which have reached a zenith, or going the commercial tax, and which might well jeopardize our total economic program.

These are decisions which no municipality should be forced to make, in light of the fact that we in Chicago—and I don't exclude other cities—are forced to give up tremendous dollars to the Federal Government and get in still a relatively little amount.

Already, Illinois ranks 48th among States in the amount of money returned to this area from tax dollars sent to Washington.

The great, older cities of America have contributed much to its history and its culture, as well as in Federal tax dollars. But the cities cannot continue to give and give and continue to get back less and less in return.

What is at stake here is not just Federal programs, but the future of our cities. Almost 60 percent of the people of this country reside in the cities which are represented by the mayors that are here this week.

It is imperative that those of us who cherish our cities, and value the people that live within them, do everything we can to ensure the survival of our great urban centers. This is a refrain that you will hear, and on behalf of all the mayors, we appreciate your suffering in hearing us all, in terms of our representation.

[The prepared statement of Mr. Washington follows:]

PREPARED STATEMENT OF HON. HAROLD WASHINGTON

Distinguished Members of Congress: The City of Chicago budget office has calculated that Chicago stands to lose as much as $155 million in federal funding in 1986, as a result of specific program cuts and the across-the-board cutbacks mandated by Gramm-Rudman.

Such a loss, amounting to nearly 8 percent of the city's budget, would be devastating, particularly when combined with cutbacks we have undergone in the past several years.

And the impact would be far larger than appear by numbers alone. What would have to be eliminated first is the creative, life-giving, forward-looking piece of city government—the programs that cost relatively little and train our youth, feed our hungry, build low-income housing for our underemployed, and encourage our teenage mothers to feed their babies properly.

We are talking about our programs that take relatively small amounts of dollars and leverage them with private dollars, and with community sweat and commitment.

We are talking about the $2.6 million spent on our new anti-gang program in 1985—dollars that funded 81 community-based non-profit agencies to run youth programs with volunteer help from the community. In 1985 this anti-gang program served over 12,000 youth and helped us reduce gang-related murders by 20 percent.

We can only estimate what the much larger Gramm-Rudman cuts expected in 1987 and further would do to the fabric of city life.

The President's recommendations and Gramm-Rudman would tear the guts out of local government. In Chicago, we would be left with essential services only: Police, Fire, Sanitation, Health and bare social services. Our development agencies—Housing, Economic Development and Planning—would face elimination.

We estimate that $100 million in private sector funds and as many as 7,400 jobs will be lost with the elimination of UDAG.

Elimination of $24 million in housing funds will devastate our creative housing programs, which are beginning to turn around the decline of Chicago's older housing stock. Elimination of the Rental Rehab program alone will result in the loss of $20 million in private funding and a loss of 550 rehabilitated housing units.

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while the defense budget has more than doubled. This does not constitute equity to me.

Less than 10 percent of the federal budget goes to programs assisting low-income people. Yet one-third of the budget cuts come from programs that serve these people. That also is not equity.

Another way to underscore the inequities in federal policy is to consider this startling comparison: in 1977, for every dollar that was committed to defense, twenty-six cents was committed to low-income housing; in 1980, that housing figure dropped to 19 cents; in 1984, it was one and one-half cents. In the President's FY '86 budget, the President's latest proposal, it was less than one cent.

We all recognize the need for a balanced federal budget—but it must not be balanced on the backs of our urban centers.

In Chicago we have worked hard over the past two and a half years to eliminate our city's budget deficit. We have cut our workforce by one-seventh, or 6,500 employees. We have done our utmost to cut waste and improve services. But we cannot cut much further without damaging the quality of life in Chicago.

The federal funding cuts would not only be hard on Chicago. They would also be unfair.

Already Illinois ranks 48th among states in the amount of money returned to this area from tax dollars sent to Washington.

The great, older cities of America have contributed much to its history and its culture, as well as in federal tax dollars. But the cities cannot continue to give and give and continue to get back less and less in return.

What is at stake here is not just federal programs, but the future of our cities. It is imperative that those of us who cherish our cities, and value the people that live within them, do everything we can to ensure the survival of our great urban centers.

Mr. WOLPE. Thank you very much.

I hope you will be able to return to join us when we return to questions.

Mr. WASHINGTON. I wouldn't leave my two colleagues to suffer the perceptiveness of your questions.

Mr. WOLPE. Thank you.

Mayor Feinstein, the written text of all of your remarks will be entered into the record in their entirety.

STATEMENT OF HON. DIANNE FEINSTEIN, MAYOR OF SAN FRANCISCO, CA, AND CHAIR, URBAN ECONOMICS COMMITTEE OF THE U.S. CONFERENCE OF MAYORS

Ms. FEINSTEIN. Thank you very much, Mr. Chairman, and I would like to thank Congresswoman Boxer for the introduction, and I want her to know how much we appreciate her advocacy back here.

She has been with her city all of the time, and I for one am very, very grateful for that, and I want you to know that. I feel a little bit that we are preaching to the converted here, and I hope we can give you some facts and figures that might be useful in what you do for us.

I don't want to make an Orphan Annie speech to you, so I know you have problems, and I am going to leave a prepared text, and the second prepared text that my office prepared for you, and really just kind of talk to you from the heart on what I see happening.

If you go back to the early 1970's, the cities came to your House and to the Senate in an earnest desire to develop the direct partnership and there were reasons, because cities were blowing up.

They didn't get the attention in State houses because in the State houses, the agrarian interest dominated, and they needed a

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direct channel to Washington and that was developed and the program through which it was developed was revenue sharing, which was a direct formula allocation of moneys that would go to cities.

I happen to chair the Urban Economics Committee of the Conference, and in Alaska, we went around the table and everybody indicated how they were using the money. More than 90 percent of the cities represented were using that money in direct services.

In San Francisco, it is the fire, the police department, parks and recreation, and the railway, and that accounts for our share of revenue sharing. I thought it would be interesting to take a look.

What do we produce in tax dollars? How can I be of help to you? Are we really just crying Orphan Annie, or is there a reason? We pulled the tax figures for 1984 from the San Francisco Tax District, and found an interesting thing.

The area produced $17 billion of income taxes, and only $1.5 billion of that was from corporate taxpayers, and all the rest were from individual taxpayers.

Additionally, the amount San Francisco alone produces is about $7 billion. I am here because our moneys have depleted and been cut in half, from about $400 million to less than $200 million remaining and that is all we get, and even if you look at all of the defense allocations to San Francisco, salaries, everything else, it totals about $3 billion there, but in direct program services, we are now under $200 million.

And whoever said that what you have seen so far is cutting the fingernails, now you are going to be cutting the bone in tax reform, Gramm-Rudman-Hollings, because we are seeing an historical shift away from that partnership between the people in the cities and the people back here in Washington.

In the private years that we have sustained nearly—our city—200 million dollars' worth of cuts, what has happened? We have seen a swell of homelessness throughout the Nation. The cities have had to measure up.

We have seen a growth of mentally ill as mental health institutions provided by the States previously have closed down throughout the area.

California, the largest State, for example, had 35,000 mental health beds 20 years ago. There are now 2,500 beds left for a State of over 20 million.

Where are the people? They are out on the streets with no care, because the dollars have not followed. We have lost CETA, and yet we still have joblessness. We see housing costs soaring, and now we are faced with losing tax-exempt mortgage revenue bonds.

Eighty percent of the housing program of San Francisco, because we followed the Reagan initiative, 80 percent comes from tax-exempt mortgage revenue bonds.

We will lose 800 units if this goes through from four big projects which are scheduled. Also, interestingly enough, the State allocation is to be $800 million, and last year, San Francisco alone used one-half of that allocation. We floated bonds totaling $400 million.

Even that one tool that we have which says, use the private sector, we would lose, and that is one of the things that is puzzling.

Another issue is mandates. We still have clean water mandates, and yet you are going to cut our sewer grants, but by Federal law,

we will be in violation, and we will receive cease and desist orders, or the Federal law provides for the regional board to stop all construction, and yet we are losing the money on which this program was predicated.

Another example; over the past 5 years, we made about $60 million of bus buys. But you have a 504 handicap mandate in that, and $20,000 per vehicle, or $4 million of that must have handicap lifts, which quite frankly are not used and are not cost-effective, and we have gone to a paratransit system, but even with that, we still must provide those lifts in buses, which costs $20,000 a vehicle more.

So I am saying, one way of going is reduce the mandates. We are under Federal consent decrees in our courts from Federal courts, a big consent decree in our police department with respect to affirmative action, that consent decree has had a cost tab of about $20 million, because we have increased the size of the department to be able to create affirmative action and upward mobility within the San Francisco Police Department.

So, Federal mandates are not being removed, and I would respectfully submit to you, if you are going to cut the dollars, please cut or drop the mandates as well, because not to do so without transferring the money is to do exactly what the States have done with respect to the mentally ill.

They have gone to community care, no dollars have followed community care, so you see mentally ill on virtually every street of every big city across this Nation.

Now, the administration has said, well, then, local governments should raise their taxes. The fact of the matter is, one-half of the cities represented by the U.S. Conference of Mayors have either spending or taxing limitations and cannot raise their taxes.

I come from a city that can. We have raised our taxes, and we have covered our revenue sharing cuts, but I will point out one other area which is extraordinarily important, and that is maintenance of operating, and capital grants for railways.

Cities, older cities, that have large systems that otherwise would have grid lock, that are really projecting their economy based on being able to move people to and from work with transit cannot exist if we lose our operating and capital subsidies.

We have raised our municipal railway fare twice. Every 2 years, the fare goes up. No matter what we do, it is not enough to make up the loss of capital and operating grants, and we are a proposition 13 State, and therefore, we have a spending limitation and an expenditure limit on what we can spend, and tax as well, so it is a very difficult and a very complicated situation.

I really feel that the partnership that was developed in the early seventies, which we were so proud of, because the cities had a voice back here, is now in the process of the ultimate destruction, and without it, without being able to come directly to the Federal Government, I am really afraid that those people that turn to cities because they are elderly, because they are poor, because they are jobless, because they have education needs, because they look for a place to live, or because they are new to America, where do the refugees go?

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What is the largest place of secondary migration in the United States, the largest Southeast Asian, largest increase in Central and Latin American populations? New commerce needs monolingual, not bilingual—I guess what we ask for is a partnership.

I happened to pick up Vice President Bush and take him in from the airport, and I was lobbying like mad on revenue sharing, and I said, "What chances do you think we have?"

He said, "Well, I think you have two: Slim and none." I would only like within that slim and none, if that is in fact the fact, to see if it couldn't be phased out over a period of time, a 100-percent cut, which I understand the Congress did in your own decisions with respect to other programs, but a 100-percent cut is terrible for the cities we represent because there is no way that most of them can raise the taxes to cover that kind of cut.

If you could phase it out 25 percent, 25 percent, 25 percent, then we would be able to plan for it.

The final point I would like to make is 17 States are dramatically hurt by tax reform if we do not maintain our State and local deduction. The largest States in the Union, the States of New York and California, are the two States that are really hurt the worst, but it is devastating for the State of California and for the taxpayers thereof.

Thank you, Mr. Chairman.

[Testimony resumes on p. 89.]

[The prepared statement of Ms. Feinstein follows:]

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PREPARED STATEMENT OF HON. DIANNE FEINSTEIN

Mr. Chairman, Members of the House Budget Committee, thank you for this opportunity to present my own views and those of the Conference of Mayors on the FY87 budget and important city programs.

Mayors are nearly unanimously concerned about high federal deficits and the other economic problems of our country. High tax-exempt interest rates raise city borrowing costs tremendously. High minority unemployment rates and the decline in manufacturing and middle wage jobs for the unskilled make it very difficult to design training programs and for our young people to find jobs. The significant ranks of those living below the poverty line, the ongoing problem of hungry and homeless people on the streets and the continuing influx of refugees impose additional burdens on city budgets and resources. The recent spate of corporate mergers and acquisitions often results in the loss of corporate headquarters and facilities and city jobs. There are many economic facts of life over which we as mayors have almost no control but which profoundly affect the economic health of our cities.

Many of the most chronic and pervasive problems of our country are primarily federal problems, demanding federal solutions. However, sharp reductions in many programs that serve the poor have thrown these responsibilities on cities, which are ill-equipped financially to shoulder the burden.

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The most recent survey of cities conducted by the Joint Economic Committee showed that 53 percent of the cities had operating deficits in FY84, using carryovers of reserve funds to meet balanced budget requirements. The Conference of Mayors in a survey conducted nine months ago, found that a majority of cities had been forced to raise property taxes or user fees or institute layoffs or hiring freezes in the prior year.

Given budget cutbacks and city fiscal problems, the result is that the needs of the poor are going unmet.

It is unfortunate and misleading that many in the media and elsewhere describe cities as wealthy, as having "rounded the bend" on poverty, that we are now the home of affluent professionals, renovated housing and high profit banks and service industries. The fact is that our cities, including my own, have areas of pervasive poverty, unemployment and economic distress. A majority of the public school children in many big cities live below the poverty line.

Moreover, the limited progress which has been made in attracting business, banks, hotels, restaurants, shops, etc. has been possible largely because of federal programs -- UDAG, Community Development Block Grants, general revenue sharing, and a wide range of federal infrastructure and economic development programs. There is a vital need for the continuation of these programs because so much still needs to be done in our cities.

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One comment on tax policy. Although the Conference of Mayors favors selected tax increases and supports much of what is contained in the House-passed tax bill, we have some remaining concerns about municipal bonds. Cities must retain some flexibility in the use of tax-exempt municipal bonds to finance economic development and foster creative private sector involvement in infrastructure projects. It is unfortunate that there are some in the Congress who would do away with some of these bonds, even though they have been vital in stimulating the economic revitalization and development of cities.

If federal programs such as general revenue sharing, Community Development Block Grants, UDAG and other federal programs are to be eliminated or cut further, the end result in cities across the nation will be massive service cutbacks. And I would guess that most of the services that would be cut would not be easy ones for the citizens to suffer or for Congress to be blamed for. In San Francisco, we are severely constrained in our ability to raise taxes or even user fees; the state is unlikely to respond with increased local aid to cushion the blow. Union contracts constrain the ability of the city to cut wages. So we really have no alternative: We would have to cut our services.

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The Gramm-Rudman law does not bind the hands of Congress in the methods for achieving the required deficit reduction. Important urban and low income programs -- already cut significantly over the past few years -- do not have to be cut further. There is always the option of selected federal tax increases or reductions in other budgetary programs to reduce the deficit.

Moreover, it is always possible to make adjustments in the Gramm-Rudman law if the Congress sees a need to do so -- to protect additional programs from automatic cuts or to slow down the mandated deficit reductions.

Whatever ultimate decisions the Congress makes, it always helps if they are made early in the year. One of the perennial problems of cities has been the uncertainty about the level of federal aid when we are planning our own budgets. The problem of delayed information is all the more intense and inefficiently costly for us when we are trying to plan and finance long term infrastructure economic development projects, where planning and timeliness of construction are very important.

Mr. Chairman, thank you for inviting me to testify today on the FY87 budget. I hope this Budget Committee and the House of Representatives will design a budget that is fair to our low income families and protects important programs.

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Mr. WOLPE. Mayor Voinovich.

STATEMENT OF HON. GEORGE VOINOVICH, MAYOR OF CLEVELAND, OH

Mr. VOINOVICH. I am immediate past president of the National League of Cities, a member of the board of trustees of the U.S. Conference of Mayors, and here today as the mayor of the city of Cleveland.

A little perspective on Cleveland: We have approximately 550,000 residents, and we have lost a third of our population since 1960. We base an unemployment rate of 13.2 percent, and a median household income of around $12,000.

There are 76,000 households, or 20 percent of the population, currently enrolled in welfare programs; we have Ohio's second highest tax rate, and we have lost 54 percent of our Federal money since 1980.

Yet, all is not gloom and doom for us. Starting from a position of default in 1979 and the worst economic period we have seen since the Depression, we are moving forward on a path of growth and prosperity.

Our chamber announced that we had $2 billion in the last 5 years of fiscal development in our downtown business district, and we have been able to survive because we have increased our local taxes by over 50 percent.

I have been to the voters six times in 6 years for tax increases. We have worked harder and smarter, and we have some 650 less employees than when I came into office in 1979.

We have outstanding public-private partnership, I would contend and some others would contend, but I contend we have the best public-private partnership in the United States, and that has been recognized because in the last 3 years, we have been named an all-American city twice, and we are up for a third unprecedented award.

In spite of everything we have done for ourselves, and we could not have done it without direct Federal programs, UDAG, EDA, General Revenue Sharing, and indirect Federal programs, tax-exempt bond findings and all of the other expenditure assistance we have been getting from the Federal Government, because of the leveraging aspect of these grants, our economic development since 1980 has succeeded in creating some 7,000 jobs, and secured $290 million in private investment, provided loans to 91 businesses, and developed and upgraded more than 225 industrial acres.

When you talk about cutting Federal dollars, you are talking about the elimination of leveraging, and that is something that Congress fails to realize. It is more than just the elimination of the direct dollars, but it is the other dollars in the community that those Federal dollars leverage so we can revitalize our economy.

The CDBG funds we received, $39 million, and today, we have $29 million. If Gramm-Rudman goes through and the President's proposed deferral also, we will be down some $9 million more.

To give you an idea what block grant EDA can do, we have a midtown industrial park, a 60-acre industrial site in one of Cleveland's most blighted areas, and we have developed with an initial

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2.1 CD grant and a subsequent EDA grant a new industrial park, and in the last 2 years, and 128 new firms, 1,200 new jobs created, and $60 million in new investment had occurred.

If it hadn't been for the block grant, the EDA money, that $60 million of private sector money would not have been invested in our community, so you cannot defer this money for the block grant program, because it is needed.

Revenue sharing, you have heard a lot about it from everyone today. Our $14.3 million of revenue sharing are used for basic city services, and unless you reauthorize general revenue sharing, it means that we will have to lay off approximately 560 individuals in the city of Cleveland, or go to the voters for at least a 10-percent increase in our city income tax.

And we are one of the fortunate cities in the country that has some other revenue source besides the property tax, and many cities, States, they have tax limitations, and the only thing available is the property tax.

I recognize the committee did not have direct input in the tax reform legislation, and I believe any discussion of infrastructure and economic development would be incomplete without a brief mention of the importance of tax-exempt financing.

The tax-exempt provisions of Rosty 1 emasculate our ability to deal with the infrastructure problems that we have talked about solving with Congress for so many years, and without which we cannot have economic development.

What happened to the buzz word of "infrastructure"? We have been struggling for 5 years to solve the infrastructure problem of this country, and now, through the magic wand of H.R. 3838, it is gone. Those problems are there.

The bottom line is that when you combine the elimination of direct city spending in Gramm-Rudman and the administration's expected 1987 budget, and the elimination of the indirect city assistance programs and Rosty 1 and tax reform 2, you end, you end the historic relationship the Federal Government has had with American cities, and set adrift millions of Americans who live in those cities to fend for themselves.

You threaten the domestic quality of life in our Nation's cities. You destroy our capacity to revitalize our economies, particularly those of us who are trying to adjust to the dramatic changes in our local economies triggered by this country's lack of commitment to remaining a manufacturing power.

As I told David Stockman last March when I sat with him with other elected representatives, we care about the national defense of this country, but we are also concerned about our country's domestic defense.

If Americans in our Nation's cities are afraid to walk the streets of those cities, what do they care about the national defense?

If you and the administration, and I know we are talking to the members of the church here today, but Congress and the administration, continue down the path, use the path you are on, you are going to be telling millions of Americans in our Nation's cities that you don't understand what is happening on the street, or you do understand what is happening and don't give a darn. Thank you.

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Mr. WOLPE. Thank you very much, Mayor Voinovich.
Mayor Carlson.

STATEMENT OF HON. STEVEN B. CARLSON, MAYOR OF JAMESTOWN, NY

Mr. CARLSON. Thank you, Mr. Chairman, thank you for the opportunity to speak with you concerning a matter of great importance to my community, and I believe to all of the small cities, as well as the large, across this Nation, the importance of economic and community development tools made available through the various Federal funding agencies.

Jamestown is a small, distressed city of about 36,000 people, close to Cleveland, OH, about 120 miles away. We have a metropolitan area of 75,000 people living within a 5-mile radius of city hall.

Manufacturing employment is the single most important aspect of our local economy. In fact, the percentage of Jamestown area workers employed in the manufacturing of goods is nearly twice that of both New York State and the Nation.

Due to changes in the marketplace and foreign competition, our manufacturing employment has declined significantly in the last two decades. The unemployment rate for the Jamestown area labor market has exceeded that of both the State and the Nation for more than a decade.

The loss of manufacturing employment over the past two decades has put great stress upon the community, and the effect of the loss of jobs has rippled through the retail and commercial sector of our economy and neighborhoods.

While the community is in desperate need of additional manufacturing jobs, we have been plagued by the lack of industrial development sites and adequate infrastructure for new industrial expansion and development.

In the few minutes allotted to me, I would like to briefly review, and I have been asked how Jamestown has been able to utilize the assistance of the Department of Housing and Urban Development, the Economic Development Administration, and the Appalachian Regional Commission to address some of the more serious problems that we face as a community.

It is also my hope to illustrate that these programs have significantly helped to improve the overall quality of life for our citizens, and help create and maintain jobs.

Jamestown, like hundreds of other small cities under 50,000, does not receive a community development block grant entitlement each year, but rather, we must compete each year for an ever diminishing pool of available CD funds.

The small cities Community Development Block Grant Program has made significant contributions, however, to our effort to revitalize the city's housing stock. Rehabilitation is continuing in nine separate target areas through a variety of loan and grant programs offered to residents who wish to improve their homes, particularly the elderly and low-income, to bring them into compliance with the city's housing code.

Since the program began, more than 2,000 housing units out of 14,000 in the community have been rehabilitated and brought into code compliance with about 1 million in CDBG assistance.

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In my opinion, the most important use of the dollars in my community has been in the area of industrial development. Several years ago, we began the Chadakoin Industrial Revitalization Program, CHIRP.

This multiyear infrastructure, redevelopment program now totals more than 46 specific projects, with an investment of roughly $10 million in our community. This program has now even crossed municipal boundaries to assist private industry in our neighboring communities.

This program has the enthusiastic support of local industrialists as a result of their involvement from its inception, including deciding which problems were the most important for the community to address, but without the availability of CDBG funds to leverage the myriad of other assistance, including EDA, ARC, New York State, and our local public works funds, this program never would have happened.

And yet, our task is far from complete. More projects are being developed to enhance our ability to retain existing industry as well as to provide for their future expansion.

One example is a program we are calling the Industrial Renewal and Modernization Program, which utilizes CDBG and ARC moneys.

The objectives of this initiative is to improve conditions throughout the city, industrial corridor, and encourage retention and expansion of existing businesses and the attraction of new manufacturing firms.

I would urge you to read the attachments to this testimony as submitted, which provide a detailed description of that program, both of those programs, as well as the specific success stories and industries that have been assisted. That material, as I said, is submitted for the record.

You should also be aware that had it not been for the availability of the fine programs like CDBG, EDA, ARC, these two programs could never have developed to the level that they have to date. Another program that has been of tremendous assistance to my city and many of the small cities around the Nation is the UDAG Program.

Jamestown has been fortunate to be the recipient of seven UDAG's, totaling more than $5 million, which have leveraged approximately $22 million in private investments in the community. These projects have created new job opportunities and expanded the tax base in our community.

During 1984 and 1985, two grants alone, totaling nearly $2.25 million in private investment in the local economy, and they will ultimately help create more than 400,000 permanent industrial jobs in the city. Not only have we benefited from the economic development activity generated by the UDAG's mentioned and referred to in the testimony, but we have also recaptured this first instance UDAG money and funded a local revolving loan fund to stimulate even more economic development activity.

With HUD's approval we have taken our first five UDAG's, totaling $1,250,000 and seeded the local development corporate loan program revolving loan fund. Since its creation in September 1981,

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23 loans have been made through December 1985, totaling nearly an additional million, $260,000 to local business and industry.

This in turn has leveraged roughly $8 million in private investment, and has resulted in the retention of 600 jobs and the creation of 370 new full-time manufacturing positions. In short, the local development corporation has succeeded in stimulating additional economic activity, created jobs, and increased our city's tax base.

I want to point out that not one penny has been lost through a bad loan. I again urge you to look at the prefiled testimony that we have submitted, a sheet that details those 23 loans and how that revolving loan fund works from the first instance of UDAG moneys.

I also want to mention that EDA and ARC resources have been critically needed and effective in helping us to improve our city's infrastructure throughout our industrial corridor. I would just like to conclude and say that the proposed cuts in Federal domestic spending as required by the Gramm-Rudman Act would have a devastating impact on our goal to improve the quality of life in Jamestown and in all small cities across the Nation, as well as the large.

In fact, cuts in Federal grant and aid programs like CDBG, UDAG, EDA, ARC, revenue sharing during the past 5 years alone have dramatically reduced our ability at the local level to capitalize on and stimulate new economic development opportunities.

We have been forced to fund many indispensible community development initiatives out of locally raised funds through raising local taxes. This, in turn, has placed tremendous strain on our ability to maintain other essential public services, and most recently has translated into the most significant increase in local property taxes for residents and businesses of my community.

We have prided ourselves in attempting to maintain local property tax increases at or below the rate of inflation for the past 8 years, yet this year, effective January 1, we had to adopt a $3.35 per $1,000 tax increase on the local property tax. This was a 12-percent tax hike, and it was higher than the cumulative tax increases of the previous 8 years.

As you can well understand, that doesn't exactly compliment or coincide and help our ongoing efforts to retain existing businesses and industry and stimulate additional economic activity. In short, for most of our property owners, the recent increase in local property tax levies can be, for the most part, attributed to the decrease in Federal programs and assistance, even to a small city like mine, I think, more than offset past and future Federal tax reductions.

In conclusion, on behalf of all small cities in need, I would ask that during your deliberations you take into full consideration the housing units and the jobs that are created in small cities through these very effective economic development tools.

Thank you.

[Testimony resumes on p. 108.]

[The prepared statement of Mr. Carlson, with attachments, follows:]

PREPARED STATEMENT OF HON. STEVEN B. CARLSON

Thank you for this opportunity to speak with you concerning a matter of great importance to my community and, I believe, to cities across this nation--the importance of economic and community development tools made available through various Federal funding agencies.

Jamestown is a distressed small city of about 36,000 people with a "metro" area of approximately 75,000 people living within a five-mile radius of the Jamestown City Hall. We are located some 400 miles west of New York City and 75 miles south of Buffalo, New York. It is a community of approximately 100 small industrial firms which employ nearly 13,000 persons in the manufacture of metal case goods, ball bearings, diesel engines, radiators, and some of the finest solid wood furniture made in the nation.

Manufacturing employment is the single most important aspect of our local economy. In fact, the percentage of the Jamestown area work force employed in the manufacture of goods is nearly twice that of both New York State and the nation. Due to changes in the marketplace and foreign competition, our manufacturing employment has declined significantly in the past two decades. The unemployment rate for the Jamestown labor area has exceeded that of both the state and nation for more than a decade.

The loss of manufacturing employment over the past two decades has put great stress upon the community and the effect of the loss of jobs has rippled

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through the retail and commercial sectors of our economy and our neighborhoods. While the community is in desperate need of additional manufacturing jobs, we have been plagued by the lack of industrial development sites and adequate infrastructure for new industrial expansion and development.

In the few minutes allotted to me, I would like to briefly review how Jamestown has been able to utilize the assistance of the Department of Housing and Urban Development, the Economic Development Administration and Appalachian Regional Commission to address some of the more serious problems that we face as a community. It is also my intention to illustrate that these programs have significantly helped to improve the overall quality of life for residents throughout the metropolitan Jamestown area.

HUD/Housing Programs

First, I would like to speak briefly about what the housing programs of the Department of Housing and Urban Development have meant to the City of Jamestown. Jamestown is somewhat typical of what you might expect in a manufacturing-based, older, small city in the Northeast. Over 75% of our housing stock was built prior to 1939. The population of the community is unusually dominant with older citizens, with 1980 census figures showing 18% of the population at 65 years of age or older. This is precisely why HUD's Section 8, Public Housing, and 202 Elderly Programs have been essential in our effort to provide decent, safe, sanitary and affordable housing. Currently, there are approximately 700 units of subsidized housing of various types in the city, with the average waiting list running between three and five years, depending on the project. Besides the new construction projects that have

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been built under these programs, numerous older multi-family structures have been rehabilitated, including a long vacant, badly deteriorated, former 100 room hotel in the heart of our central business district.

SMALL CITIES COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The Small Cities Community Development Block Grant Program has also made significant contributions to our effort to revitalize the city's housing stock. Rehabilitation is continuing in nine separate target areas through a variety of loan and grant programs offered to residents who wish to improve their homes and bring them into compliance with the city's housing code. Since the program began, over 2,000 housing units have been rehabilitated and brought into code compliance, with approximately $1 million in CDBG assistance.

The Community Development Block Grant Program has also played an important role in revitalizing Jamestown's downtown area. Suffering from the exodus of retail stores following the construction of a regional shopping mall, Jamestown's downtown appeared devastated. A number of "townscape" projects and a new hotel were developed with the assistance of the Community Development Block Grant program. Today, our downtown area has new life. Storefronts are nearly filled, building owners are improving their properties and the situation in general, is turning around. Much remains to be done, however. There is a need for new buildings to fill vacant parcels and for further rehabilitation of blighted structures. I fear our progress to date will be lost without the continued assistance of the Community Development Block Grant Program. You should also know that Jamestown has already

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suffered a cut of one-half of the funds we received from this program since 1980.

In my opinion, the most important use of Community Development Block Grant dollars in my community has been in the area of industrial development. Several years ago, we began a program known as the Chadakoin Industrial Revitalization Program (CHIRP). This multi-year, infrastructure redevelopment program now totals more than 46 specific projects, with an investment of roughly $10 million in our community. This program has now even crossed municipal boundaries to assist private industry.

The CHIRP program has the enthusiastic support of local industrialists as a result of their involvement from its inception, including deciding which problems were the most important for the community to address. Without the availability of CDBG funds to leverage a myriad of other assistance, including EDA, ARC, New York State and Local Public Works funds, this program would never have happened. Our task is far from complete; more projects are being developed to enhance our ability to retain existing industry as well as to provide for their future expansion. One example is the Industrial Renewal and Modernization Program (IRAMP), which has successfully utilized both CDBG and ARC monies.

Like CHIRP, the objective of this new initiative is to improve conditions throughout the city's industrial corridor and thereby encourage both the retention and expansion of existing businesses, and the attraction of new manufacturing firms.

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Unlike CHIRP, however, IRAMP is not directed at improving infrastructure and public services. Rather, this new initiative is designed to address another long-standing problem facing Jamestown's industrial corridor, the lack of adequate space for industrial expansion and development. Through a very cautious and selective process, the city is currently removing antiquated, blighted and underutilized/vacant structures to make way for developments by sincere and ready to go investors. To date, the first four phases of IRAMP, utilizing $550,000 of public funds (primarily CDBG and ARC), have assisted with the expansion plans of seven (7) industrial firms, stimulated nearly $4 million worth of private investment and resulted in the creation and retention of more than 800 permanent jobs for the Jamestown community.

I would urge you to review the attached detailed descriptions of both the Chadakoin Industrial Revitalization Program and the Industrial Renewal and Modernization Program and to take into consideration the effect that these initiatives have had on the local Jamestown economy. You should also be aware that had it not been for the availability of fine programs like CDBG, EDA and ARC, the CHIRP and IRAMP programs could have never developed to the level that they did.

URBAN DEVELOPMENT ACTION GRANTS

Another HUD program that has been of tremendous assistance to the City of Jamestown is the Urban Development Action Grant (UDAG) program. Jamestown has been the recipient of seven UDAG's totaling more than $5 million in grant assistance, which leveraged approximately $22 million in private investment. These projects have also created new job opportunities and expanded the tax

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base in our community. Our UDAG projects include:

1. 84 units of new unsubsidized housing for moderate income residents
2. 2 new foundries employing about 100 people
3. 60 units of housing for the severly physically handicapped
4. Development of a downtown shopping mall
5. Neighborhood rehabilitation projects
6. Expansion at a local glass and mirror manufacturing concern
7. Construction of a major new wood furniture manufacturing plant.

During 1984/1985, two Urban Development Action Grants alone, totaling nearly $2.25 million, stimulated over $16 million dollars in private investment in the local Jamestown economy, and will ultimately help to create more than 600 new, permanent, industrial jobs for our community.

RE-USE OF UDAG MONIES - JAMESTOWN LOCAL DEVELOPMENT CORPORATION

Not only has Jamestown benefitted from the economic development activity generated by the UDAG's mentioned earlier, we have also recaptured this "first instance" UDAG money and funded a local revolving loan fund to stimulate even more economic development activity.

With HUD's approval, we have taken our first five UDAGs, totaling $1,250,000 and seeded the Jamestown Local Development Corporation's revolving loan fund. Since its creation in September of 1981, 23 loans have been made thru December 1985 (totaling nearly $1,260,000) to local business and industry. This, in turn, has leveraged roughly $8 million in private investment and has resulted in the retention of 600 jobs and the creation of 370 new full time positions for the Jamestown area.

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In short, the creation of the Jamestown Local Development Corporation has succeeded in stimulating additional economic activity, created jobs, and increased the city's tax base. I should also point out that not a penny has been lost thru a bad loan! I would urge you to see the attached sheet which provides a listing of the Jamestown Local Development Corporation activities.

EDA and ARC Programs

As previously touched upon, the City of Jamestown has effectively and extensively utilized EDA and ARC resources to implement a variety of economic development initiatives. In recent years, nearly $5.5 million worth of EDA and ARC funds have been utilized to virtually rebuild the city's industrial corridor from the infrastructure up, primarily through the CHIRP and IRAMP initiatives.

The City's most recent economic development related program, for which ARC funding has been earmarked, is the Mature Industries Training Initiative (MITI), an innovative and comprehensive skills development and job training program designed to deal with the production related problems of older or "mature" industries. The program, designed and jointly sponsored by the City of Jamestown, County of Chautauqua and Jamestown Community College, will assist mature industries in the Jamestown area to undertake detailed production improvement studies and establish specialized training/retraining programs for both labor and management.

Through this concentrated and cooperative approach, the MITI program will substantially improve the operating efficiency and overall productivity of participating industries and greatly enhance their ability to conduct business in the increasingly competative world marketplace.

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While the Mature Industries Training Initiative will help to substantially improve the performance of specific local manufacturing firms, the program will also serve as a model or prototype for other industries experiencing similar problems. In other words, through the implementation of this initiative in the greater Jamestown area, it is hoped to generate a methodology for the revival of struggling "mature" industries on a much wider basis.

The proposed cuts in Federal domestic spending, as required by the Gramm-Rudman Act, would have a devastating impact on our goal to improve the overall quality of life in the Jamestown community. In fact, cuts in Federal grants in aid programs (ie: CDBG, UDAG, EDA, ARC, Revenue Sharing, etc.) during the past five years alone, have dramatically reduced our ability at the local level to capitalize on and stimulate new economic development opportunities, and have forced the funding of many indispensable community development initiatives out of locally raised revenues. This, in turn, has placed a tremendous strain on our ability to maintain other essential public services and most recently has translated into significantly increased local property taxes for the residents and businesses of my community.

In the case of Jamestown, a city that has prided itself on its ability to maintain annual city purpose property tax increases at or below the rate of inflation, a $3.35 per $1,000 assessed value tax increase was reluctantly approved for FY 1986. This 12% tax hike is higher than the cummulative tax increases of the previous eight years, and as you can very well understand, does not exactly complement or coincide with our ongoing efforts to retain existing business and industry, and stimulate additional economic activity in the Jamestown area. In short, for most property owners in my city, the recent

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increase in local property tax levies, which can be at least partially attributed to a decrease in Federal programs and assistance, has more than offset the past and future Federal tax reduction plans of the administration.

In conclusion, on behalf of all cities in need, small and large alike, I ask that during your upcopming deliberations on the budget, you take into full consideration the housing units and jobs that have been created, the neighborhoods and businesses that have been preserved and reinvigorated and the lives that have been positively impacted not only in Jamestown, but in communities across the nation, through the effective and worthwhile development oriented programs of the Department of Housing and Urban Development, the Economic Development Administration and the Appalachian Regional Commission.

Thank you.

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DEPARTMENT OF DEVELOPMENT

CURTIS D JOHNSON JR
DIRECTOR OF DEVELOPMENT

CITY OF JAMESTOWN

(716) 483-7541

January, 1980

CHADAKOIN INDUSTRIAL REVITALIZATION PROGRAM

The Chadakoin Industrial Revitalization Program is an infrastructure improvement program in Jamestown, New York instituted to retain existing industry and make conditions favorable for expansion.

The program concept was initiated in August 1976 by Mayor Steven R. Carlson who called a meeting of local industrialists in cooperation with the Manufacturers Association of the Jamestown Area and the Jamestown Area Chamber of Commerce. Participants were asked to identify problems affecting their businesses over which the City could exercise some control. Subsequently, those same people were asked to assist in designing solutions to the problems. The City's role was to provide coordination, technical assistance, and to secure funds to implement the projects.

A major concern identified at the initial meeting was the periodic flooding of the Chadakoin River throughout the industrial corridor. To alleviate this problem, the City, in cooperation with state and federal agencies, was able to secure the necessary $1.4 million to replace the deteriorating dam which controls water flow downstream. The project was completed in 1979. Additional concerns noted by the industrialists included shortages of parking, inadequate access to roads, deteriorating or lacking storm and sanitary sewers, unacceptable water pressure and electrical service problems. In response, the Department of Development, the Appalachian Regional Commission, and the United States Department of Commerce Economic Development Administration agreed to undertake the necessary construction programs. At this time, nearly $8 million has been invested in various public works projects to rebuild and improve the city's infrastructure throughout the industrial corridor.

The Chadakoin Industrial Revitalization Project has benefited private businesses not only in the City of Jamestown, but also in the greater Jamestown area (the Jamestown Industrial Corridor, built along the Chadakoin River, extends beyond the corporate limits of the city). The infrastructure improvement projects, which cross municipal boundaries, are accomplished through inter-municipal contracts between the City, the village, the township and the county government, which have designated the Jamestown Urban Renewal Agency as the administrative action arm to obtain funds and oversee the construction of the various projects.

This infrastructure improvement program also complements the Jamestown Area Labor-Management Committee's efforts to improve productivity and the quality of working life as well as the financing efforts of the Chautauqua County Industrial Development Agency.

The Chadakoin Industrial Revitalization Program is based upon the philosophy that satisfied, successful, existing businesses are the best salesmen for the community.

-over-

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CHADAKOIN INDUSTRIAL REVITALIZATION PROGRAM

Completed Projects

Phase I - 1978 -1980 Projects	Cost	Funding Source
Construction of Board of Public Utilities/Monitor Furniture Company access road and storm drainage system	$ 36,083	EDA; HUD (CDBG); ARC
Construction of Steele Street Parking Lot	154,583	EDA; HUD (CDBG); ARC
Reconstruction of Warner Dam.	1,430,000	ARC; City Cap. Budget, NYSDEC
Construction of the Minnowbrook Storm Sewer	37,805	City Capital Budget
Reconstruction of Steele and Harrison Streets	49,686	City Capital Budget
Reconstruction of Wisner Street and Harrison Street Bridges	37,805	City Capital Budget
Reconstruction of Scott and Cheney Streets and improved storm drainage	67,720	HUD (CDBG); ARC
Construction of public parking lot on Briggs and Harrison Streets		
Removal of the pedestrian bridge at Fraser Furniture building		
Construction of a parking lot on Harrison Street	74,026	EDA; HUD (CDBG); ARC
Reconstruction of Willard and Allen Streets (from Winnor to Allen and Allen Street from Willard to Barrows Street)	568,074	EDA; HUD (CDBG); ARC
Reconstruction of Barrett Avenue storm sewer and reliever system	102,918	HUD (CDBG); ARC
Acquisition, demolition, engineering, administration & misc. public improvements	534,533	(All the above)
TOTAL - PHASE I	$3,091,233	
Phase IA - 1980 Projects		
Construction of retaining structure along Chadakoin at Institute Street	18,720	HUD (CDBG); ARC
Winnor Street building demolition and parking lot construction	50,000	HUD (CDBG); ARC
Construction of the Allen Street Electrical Duct Bank	164,769	EDA; ARC; HUD (CDBG); BPU
Construction of parking lot at Foote and Harrison Streets	88,275	HUD (CDBG); ARC
Reconstruction of Barrett Avenue storm sewer and reliever system	82,679	HUD (CDBG); ARC
Reconstruction of Water Street storm sewer	35,966	HUD (CDBG); ARC
Acquisition, demolition, engineering, administration & misc. public improvements	295,925	(All the above)
TOTAL - PHASE IA	$ 736,334	
Phase II - 1981 Projects		
Reconstruction of Allen Street from Barrows to Buffalo Street	409,365	HUD (CDBG); ARC
Acquisition, demolition, engineering, administration & misc. public improvements	99,141	(All the above)
TOTAL - PHASE II	$ 508,506	
Phase IIB - 1982 Projects		
Reconstruction of Tiffany Avenue	236,778	City Capital Budget; ARC
Construction of Allen Street Storm Sewer	497,125	City Capital Budget, ARC; HUD
Acquisition, demolition, engineering, administration & misc. public improvements	125,350	(All the above)
TOTAL - PHASE IIB - 1982 Projects	$ 859,253	
Phase IIB - 1983 Projects		
Ellicott Industrial Park Storage & Supply District Facilities	821,891	EDA, Town of Ellicott
Reconstruction of Allen Street from Tiffany Avenue to South Work Street	375,410	EDA, Town of Ellicott, Co. of Chaut. Capital Budget
New York Avenue Realignment	104,250	EDA, Town of Ellicott, (CDBG)
Reconstruction & Signalization of Elmwood Avenue/So. Work Street	117,786	EDA, Co. of Chaut. Capital Budget
Reconstruction of Lister Avenue	72,117	EDA, Village of Falconer
Reconstruction of Allen Street from (Buffalo Street to Tiffany Avenue)	403,935	
Allen Street Storm Drainage Improvements	142,883	EDA, (CDBG)
Acquisition, demolition, engineering, administration & misc. public improvements	367,233	(All of the above)
TOTAL - PHASE IIB - 1983 Projects	$2,405,000	
Phase IIB - 1984 Projects		
Hopkins Avenue Pump Station	$ 166,918	City of Jamestown, EDA
NY Avenue Drainage	42,057	Town of Ellicott, EDA
Industrial Park Access Road Paving	91,572	Chaut. Co. Capital Budget, EDA
Lyndon Blvd. Drainage	57,181	Chaut. Co. Capital Budget, EDA
Pope's Siding Removal	18,767	City of Jamestown, EDA
Elmwood Avenue Track Removal	31,598	Village of Falconer, EDA
Falconer Glass Interceptor Sewer	177,221	Town of Ellicott, EDA
Tiffany Avenue Detour Plan	2,220	City of Jamestown, EDA
TOTAL - PHASE IIB - 1984 Projects	$ 587,534	
CHIRP III		
Flavarna Avenue Pump Station	214,500	Small Cities, City Capital Budget
Water Street/Foote Avenue Sanitary Sewer	630,000	Small Cities, City Capital Budget
Realignment of Steele Street & Whitley Avenue	167,000	Small Cities, City Capital Budget
	$1,011,500	
TOTAL EXPENDITURES TO DATE	$9,199,360	

Projects Under Design
Blake Street Realignment

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DEPARTMENT OF DEVELOPMENT
CITY OF JAMESTOWN

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May 1985

THE INDUSTRIAL RENEWAL AND MODERNIZATION PROGRAM

As a logical extension of the nationally acclaimed Chadakoin Industrial Revitalization Program (CHIRP), the City of Jamestown has designed and is in the process of implementing the multi-stage Industrial Renewal and Modernization Program (IRAMP). Like CHIRP, the objective of this new initiative is to improve conditions throughout the city's industrial corridor and thereby encourage both the retention/expansion of existing businesses, and the attraction of new manufacturing firms.

Unlike CHIRP, however, IRAMP is not directed at improving public services and infrastructure. Rather, this new effort is designed to address another long-standing problem facing Jamestown's industrial corridor, the lack of adequate space for industrial expansion and development. Through a very cautious and selective process, the City of Jamestown intends to remove antiquated, blighted and underutilized manufacturing structures to make way for expansion programs and new developments by sincere and "ready to go" investors.

The first four (4) phases of IRAMP involve the purchase and demolition of the abandoned and deteriorated Jamestown Worsted Mill, Crescent Tool, Maddox Table and Ingersoll Rand (Proto Tool) facilities. These efforts are in conjunction with the planned expansion of seven (7) industrial corridor manufacturing concerns.

Phase I: Afro-Lecon, Inc. Consolidation and Expansion Program - The initial phase of the Industrial Renewal and Modernization Program, funded with a $150,000 Appalachian Regional Commission Grant, is assisting with the consolidation and ultimate expansion of Afro-Lecon, Inc. Watson Industries Division, a long time but struggling employer in the Jamestown area. The program entails the acquisition and demolition of a 290,000 square foot, antiquated and underutilized portion of the Afro-Lecon (formerly Jamestown Worsted Mill) facility. Through this phase of IRAMP, the area in question will be prepared for either an expansion by Afro-Lecon or a development by another private sector investor.

In conjunction with this activity, Afro-Lecon, Inc. will consolidate its operations into the remaining 100,000 square foot section of the building. With the assistance of the Jamestown Local Development Corporation and Chautauqua County Industrial Development Agency, several structural and energy related improvements will be made to the remaining building and thereby allow the newly consolidated operation to be more efficient. This phase of IRAMP will stimulate $500,000 worth of private investment and enable the retention

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of approximately 75 manufacturing jobs and the creation of another 40 permanent positions for the greater Jamestown area.

Phase II: Phoenix Metal Fabricating, Inc. Expansion Program - The second phase of the Industrial Renewal and Modernization Program will utilize $100,000 of Small Cities Community Development Block Grant money to acquire and remove the vacant and severely deteriorated Crescent Tool Buildings on Foote Avenue and Harrison Street. In addition to creating another valuable development parcel within Jamestown's industrial corridor, Phase II of IRAMP will assist with the expansion plans of an adjacent industry, Phoenix Metal Fabricating, Inc. When completed, the $415,000 Phoenix Metal Expansion Program will result in the creation of another 20-25 permanent manufacturing jobs for the Jamestown area.

Phase III: Redevelopment of the Maddox Table Site - Phase III of IRAMP, to be funded with a $100,000 grant from the Western New York Economic Development Corporation, will entail the acquisition and demolition of the unutilized Maddox Table Company facilities on Harrison Street. This effort will provide a site for a new $1,000,000, 50,000 square foot industrial building. The new plant will be used by the Allied Industries Division of the Chautauqua County Resource Center for light and medium industrial operations and will enable the creation of at least 200 jobs for developmentally disabled clients and unemployed individuals.

Phase IV: Redevelopment of the Ingersoll-Rand (Proto Tool) Properties - The fourth stage of the Industrial Renewal and Modernization, to be funded with a $200,000 allocation from the city's FY 1985 Community Development Block Grant will entail the complete redevelopment of the site presently occupied by the abandoned Ingersoll-Rand (Proto Tool Division) complex. When completed, the fourth phase of IRAMP will permit the expansion of four (4) neighboring businesses (the Weber-Knapp Company, Dawson Metal Company, Inc., Star Refrigeration and the Industrial Incubator Complex at 65 River Street) and enable the retention and creation of 446 permanent industrial jobs for the metropolitan Jamestown area.

Phase	Public Investment	Private Investment	Leverage (Private/ Public Ratio)	Jobs Retained	Jobs Created
I.	$150,000	$500,000	3.33:1	75	40
II.	$100,000	$415,000	4.15:1	26	20
III.	$100,000	$1,000,000	10.00:1	--	200
IV.	$200,000	$1,751,000	8.76:1	346	100
Total	$550,000	$3,666,000	6.67:1	447	360

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Jamestown Local Development Corporation
Loan Summary

Project	Jobs Preserved	Jobs Created	JLDC Loan Amount	Total Project Cost
832 Foote Avenue, Ltd.	9	18	$ 40,000	$ 246,891
Jamestown Bigelow's Inc.	120	5	100,000	807,770
Jamestown Mattress Co.	-0-	10	50,000	146,000
Go Tire Service	2	3	27,000	81,295
Jamestown Dental Lab	12	5	25,000	91,620
RAMCO	4	3	40,000	128,175
Jamestown Optometric Group	6	6	67,000	390,525
C. Larson/Commons Mall	16	23	25,000	116,773
Pri-Det Investigations, Inc.	97	20	45,575	182,300
832 Foote Avenue, Ltd.	27	-0-	20,000	-0-
Jamestown Awning, Inc.	11	5	20,000	80,000
Mastercarvers of Jamestown	30	10	50,000	497,653
Phoenix Metal Fabricating, Inc.	26	9	50,000	415,000
Johnson Machine & Fibre Products Company, Inc.	22	10	50,000	240,000
Star Refrigeration	5	7	50,000	271,500
Afro-Lecon, Inc. Watson Ind. Div.	47	67	50,000	561,365
Dawson Metal Co., Inc.	81	14	100,000	481,000
Artone Manufacturing Co.,Inc.	20	20	50,000	375,000
Analex, Inc.	14	6	45,000	197,000
Sequoia Pacific Systems, Inc.	20	100	100,000	1,500,000
Howlett Cadillac Oldsmobile, Incorporated	24	14	100,000	1,500,000
Frames East, Inc.	0	10	90,000	501,400
Innovative Tool & Machine(ITM)	10	4	50,000	226,557
TOTALS:	594	369	1,259,575	7,974,693

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Mr. WOLPE. Thank you very much, Mayor Carlson. Thanks to all of you for your excellent testimony. Having lived through this process the last couple of years with all of you, I have been struck by what seems to me to be a key exception that has been involved in the way in which the budget crisis has been articulated going back to 1981.

I think most Americans were led to believe the principal objective of the administration over the past several years has been an across-the-board austerity program designed to reduce overall levels of Government expenditures, reduce the size of budgetary deficits and so on.

I think it has become increasingly clear that that was not, in fact, the intention of the program. The real end has been to redirect sources rather than to just lower the level of Federal commitments overall. And cuts have been made to these programs that have been made to offset expenditures on the Pentagon side.

Federal deficits are higher rather than lower and so on. There are two principal philosophical arguments that have been used when people, in more candid moments, have laid out what they are really about. It would be interesting to hear your arguments to the philosophical budget cuts that have occurred particularly in the urban area.

One of those is many Federal subsidies that have been in place up to this point have not really had the effect of adding net jobs or net economic growth to the Nation, but really have had the effect of redistributing where investments would otherwise have gone. The marketplace is a better determinant, and we are simply altering distribution rather than enhancing that growth or that quality of life for Americans generally.

The second kind of argument relates to this notion of Federal system revisited; that is, that the Federal Government has over the years simply undertaken some functions that are more properly left to State and local governments and that we ought to be about the business of redistributing those functions and those burdens.

Would you care to respond to those two issues, Mayor Feinstein?

Ms. FEINSTEIN. I think you hit the nail on the head. As one of the mayors said earlier, everyone wants a strong defense, but if you are going to make the cuts, make them easier, don't single out the cities for those cuts. I think also the way the tax structure has been is very disturbing. There never has been a time when the large corporation pays less than today. I think that is a very clear hypocritical signal of what, frankly, is going on.

The programs have worked in the main. What has been brought to the American public is when there is a problem—and we found as with CETA we had a very fine CETA Program, and yet we lost it because there happened to be a problem in a few cities, and you got upset and the program ended.

But it was putting people back to work, and we picked up some of the CETA employees, bringing them on to the local payroll whenever and wherever we could. So I don't really agree with the assumption that we haven't been rebuilding infrastructure with this; that we haven't effectively been remodeling our sewer systems, for example. San Francisco Bay is much less polluted today by virtue of these programs than it was 20 years ago.

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There is no question about that. Public transit has helped the economy. One of the reasons an employer will choose San Francisco above a suburban community is because it is easier to get in and out and some of the suburban communities now, of which Mrs. Boxer will be familiar with, now have great luck around commute hours, and they have no transportation infrastructure. So increasingly things are returning to the cities.

You now have one of our suburban counties voting to go into the rapid transit system because we are beginning to see that the automobile simply can't get them in and out of the city. So I differ with you or I differ with the ideology that says that the Federal programs have not worked. Because I believe to a very great extent, particularly in EEA, in infrastructure, in transit grants, some of those have practical grants. They have made the cities stronger to be a good employer, be a place of employment, and the business community by and large has responded by retaining corporate offices in those cities.

Mr. WOLPE. Thank you. Mayor Voinovich.

Mr. VOINOVICH. I think the real issue is the one you just made mention of, and that is should the Federal Government continue to play a role in the lives of cities throughout this country. Is there a need for a direct city relationship? I believe there is.

I think, as I mentioned, it is just as important as the national defense to provide a quality of life in our nation's cities whereby 80 percent of the people live so that they can live decently, so that they have a job, so that they can get to their places of employment. I think that is extremely important, and I think that is the issue here; is whether or not you are going to continue that relationship or not.

You start with that. I think if you look at the country, you have to realize that as decades go by, different things are happening. We happen, in my section of the country, to be impacted severely by the change in the world economy, and as I mentioned, a lack of commitment to manufacturing. Does a country like ours have some role to play in responding to that change to help people get through the transition period?

Does it have a role to try and make sure that those people that are unemployed are retrained? Does it have a role to play in providing housing and food and ministering to the human needs there? I think it does. I think that we have different capacities to respond, and there has got to be a national program that looks out and deals with that. I agree that you have got a deficit problem. You know I have a deficit problem.

You decrease taxes 25 percent. You never really had a right to do it. You increase spending, and now today your problem is the deficit, $150 billion interest which you have got to pay this year, and every place is like a rat trap in a corner. You are trying to reach out and solve the problem, and you are looking at 13 percent of the budget to solve the problem in Gramm-Rudman, 10 percent for defense and 3 percent goes to the city programs.

You can't destroy the country in the zest to do something about the deficit. It has to be evenhanded. You have got to increase taxes. You know that. Everybody knows it. Even David Stockman said when he left the hallowed halls of the White House, he said a $100

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million tax increase, freezing Social Security. Tax reform that is revenue neutral is preposterous, and what you need to do is deal with the deficit, I think, by increasing taxes, by freezing many of the programs or maybe with Social Security eliminating the cost of living.

John Chaffee recommended a year or so ago, if you just reduce the itemization on your tax return 10 percent, you will raise $150 billion. Do some things fast that will get at the deficit, and then get into this business of tax incentives and so forth. But I think if somebody looked at the Christmas tree of incentives right now, they would ask themselves who in the devil ever decorated that tree.

But you haven't got the time to thoughtfully go through and look at national policy and decide which direction you should go because you are caught in the vise of doing something about the deficit. So I would say do something dramatic to get at the deficit and then sit back and decide from a national policy point of view what you ought to be in and what you should be out of. I said to the administration, I happen to believe gradually bringing some of this back to local government is a good idea, but you can't do it overnight.

And you can't eliminate direct spending programs and then on the other hand eliminate our capacity on the local level to respond to deductibility to State and local taxes, historic rehabilitation credit and the credit we give people for their contributions to charity. It doesn't seem like anybody sat back and thought about where are we going. Just solve the deficit problem and close your eyes to everything that is out there. We are really going to pay the price unless we do something dramatic about this. Sooner or later, this is going to eat us all alive, and we have always had the luxury of coming back but the competition today in the world is keener than ever before. We haven't got the luxury that this Nation has had during the last or the early part of this century.

Mr. WOLPE. Thank you. Mayor Carlson.

Mr. CARLSON. Yes. I agree with what my two colleagues have said. I would just add regarding the first philosophical argument that many of the Federal economic development tools have just not really created new jobs, but rather just, as you stated it, just redirected jobs from one area to the other. I would just say that the two most recent UDAG's that I mentioned in my remarks, one was to a company called Faulkner Glass, which their major competition is not in this country. It is in Germany, and if they were not expanding and doing their thing in Jamestown, we would not probably have a company like that in this Nation.

We would be importing all of that. The other UDAG that I mentioned is another company called Bush Industry. Their major competition is in Yugoslavia and Taiwan. So I guess to say that that argument that would say that these programs have just redirected jobs around the Nation doesn't hold a lot of water in my mind, because of those two examples and for a second reason. What should we do when we don't have jobs or we lose jobs in large or small cities in this Nation? Do we just close up the city and nail the door shut and tell everybody to move to an area of this country that currently has a beaming economy?

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We can't do that. That is not a rational argument or a suggestion, and we must do all we can to revitalize and develop local economies in every area where the economy has been set back and there has been a loss of jobs. That is by added comments

Mr. WOLPE. Thank you very much. Let me invite Congresswoman Boxer to pose some questions.

Mrs. BOXER. Thank you very much. I want to thank you all of you because I think you are excellent and I wanted to say I thought my mayor did an excellent job with going back over the history of this partnership that has developed since the seventies.

I think it is important we focus on that. There are those cynics who say this entire deficit was a contrived one in order to end this partnership and the programs that came out of this partnership and because you can't imagine how the President could have thought that by taking $600 billion out of the revenues of our budget, which is what happened over a 5-year period, and increasing military spending almost $200 billion over that timeframe, and chopping $300 billion off of domestic spending, which is what happened, that you could have a balanced budget.

I mean the idea that there would be this great resurgence of economic prosperity that would fill the coffers just didn't happen. Year after year we saw it wasn't happening. Now we have a $220 billion deficit and, as you pointed out, Mr. Mayor, $150 billion just to keep up the service on the debt. So we are in big trouble and I think that you laid out some very good ways that we could solve the problem, and I think that the chairman and I will certainly be considering those ways as we sit down to look at the budget.

I have one question, and prior to asking it, I wanted to make a couple of more comments. The President's 1987 budget which we have yet to see, but which we have heard a little bit about is going to make Gramm-Rudman look like a birthday cake.

Gramm-Rudman is no birthday cake because what Gramm-Rudman will do is do this across the board slash, and even though it professes to be fair, 50 percent military, 50 percent domestic, the fact is that already we have seen this padding of the military budget and this decimation already of domestic programs, so you are starting from a base that is totally unfair. So we have the prospect of the Reagan budget coming forward, which is going to be horrible because it is going to have a real 3-percent growth in military spending, and destroy all these other programs and then the alternative of Gramm-Rudman, which is impossible.

The only other hope is that we get together and this is where my question comes, as Members of Congress, in a bipartisan fashion and try to put forward a proposal that will be fair, that will look at new sources of revenues and a fair way to make these spending cuts that doesn't devastate everything.

I guess my question to you is really rather political. If you look back on the history, recent history, we have found that Presidents get about 90 to 95 percent of what they want. With all the yelling and screaming and the confrontation, when it comes down to it in terms of budgets, Presidents have gotten 90 to 95 percent of what they want.

So for Congress to overturn that, it is going to take something very major out there. My question, and I ask it to my mayor first,

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do you feel that there is a commitment and energy in the Mayor's Conference, in local government, that you could form some kind of partnership with those of us in the Congress, both Republicans and Democrats, who want to stand up and say no way? We have got to do something different.

We will not go along with the Reagan approach, and we will not go along with Gramm-Rudman. We are going to need that kind of grassroots support, so I would ask my mayor if she sees that kind of energy and commitment out there?

Ms. FEINSTEIN. Congresswoman, I believe there is. I know it is there in the conference, and I think it is there in San Francisco in some of the Republican corporate leadership as well that recognize what is happening. And I think there is an increasing—if you will, knowledge that what happens in the cities impacts the busy climate, and if the cities go downhill and become troubled, the businesses will as well. Therefore, to be able to be helpful to a city is very important from a good business perspective.

I would be very pleased to do what I can to get some Republican help from our area that happens to be in the business community to play a role in this.

Mr. VOINOVICH. I think the opportunity is there, but it is going to require a lot more work on all of our parts, and some leadership in Congress. The National League of Cities has said over the last 4 years freeze our programs. Increase taxes. Freeze other programs, and we have been very candid about saying some things that politically you are not supposed to say, but we have been saying them to try and give some folks up here a backbone to say: Look, this is our Nation in jeopardy, and we have to do something.

But part of our problem is your colleagues look on us mayors as Orphan Annie or people come up with a tin cup and begging and trying to get out of something, and what they are failing to do is that these programs deal with their fellow citizens, and the tax dollars we are talking about are the same taxpayers pay here as they pay home.

We need to do a better job of communicating to our cities the impact of some of these programs on their lives. That is starting to happen, but it is interesting. We really haven't been able to get the attention of the mayors of this country, really get their attention until Gramm-Rudman came along and all of a sudden the reality is on them.

A lot of mayors and city council people don't even realize yet that revenue sharing is going to be next year. They still haven't got it. I think that as that sets in, just as you did a wonderful job, for instance, in the Fair Labor Standards Act, I can tell you you never would have passed dealing with that last year had it not been for the fact cities started to have to pay more money, sat down with their unions and all of a sudden it became a reality.

So I think this is the moment when we should move forward, but I think to sit back on the congressional side, like Bill Gray came to see us—in fact, Mr. Carlson and I were in the same room with him in July—and he said we are not going to raise taxes because the guy in the White House is not going to buy it, and we will be darned if we are going to wear the jacket.

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The fact is this is the country we are talking about. We are in a crisis, and somebody has to stand up and be counted, and somebody has to exercise some leadership. I can assure you we will follow that leadership, and I can assure you the American people will follow that leadership if you really come up with a fair program that is across the board. Everybody pays, including senior citizens. Everybody contributes to this thing and we are going to do something about that deficit.

I think the American people would follow your leadership and I think ultimately in spite of what the President says, he is going to have to come across.

Mr. CARLSON. I agree. Not to take anymore time really, but I agree with what Mr. Voinovich has said, and I think there is the energy and the commitment on the part of the mayors of this country to stand up, and we have been trying to do that. But as Mr. Voinovich said, until Gramm-Rudman, and maybe now that the reality of the potential loss of general revenue sharing is sinking in, even at the small communities around the country, people are beginning to pay attention and wake up.

I think some of us have been preaching for a while that we are already paying for much of the Federal tax cut a few years ago, with increased local property taxes. I believe the local property tax is the most unfair regressive tax of all. We need to do a better job educating ourselves and our cities, along with Members of Congress, to help you do that, that the Federal income tax, in my opinion, is the best way to collect revenues and the fairest way.

I think as Mr. Voinovich mentioned, everyone, if it is a program that is fair and across the board, everyone should pay their fair share and the American people will support it.

Mrs. BOXER. Mr. Chairman, just to close it, I appreciated your answer. What I hope we can do, as one member of the Budget Committee is give you the vehicle we need. I would hope we could, out of this Budget Committee, come up with such a document that would give you the leadership that you needed to form your committee for a fair budget and to get the word out to the citizenry.

As one member, and I know the chairman and I seem to agree in most of our views, if we can do that out of this committee, I think you will have the document that you need. I hope we have the courage to do that.

Ms. FEINSTEIN. Thank you very much.

Mr. WOLPE. If I just might add a footnote to that, the bipartisanship that is evident on the panel today was also manifest in the Congress. We came very close last year to a rather extraordinary deficit reduction package where the leaders of both Houses, the Republican leaders in the Senate and Democratic leaders in the House, indicated a willingness to take this seriously.

The problem, of course, is part of the time there has been a lack of willingness to step forward and do that which we all know needs to be done. The fact is, a lot of these decisions are going to be vetoed. It has been very tough. It is easy for one-third of these institutions, but because of philosophical or other reasons, and I mention that because I really do think in the final analysis there is a much greater degree of bipartisan consensus in the Congress than there is between the White House and the Congress.

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That is, to some extent, where all of you come in. What we have is a paralysis of institutional cooperation at this point that is going to be required if we are going to do the job, Presidential veto of the elements of legislation need to do the job, based upon his particular ideological priorities, we are going to be in trouble.

If on the other hand he manifests flexibility, we have a bottom line that has been laid out for us by Gramm-Rudman. Given that bottom line if Congress would be left to the choices of how we achieve a deficit reduction that is required, I think it will do the job on a bipartisan basis but that we need some help. Last year it was the battle of deductibility. The President called for its repeal. Most folks insist it would be impossible to produce a meaningful tax proposal that would permit a substantial hearing of tax rate without deductibility of State and local taxes.

The House version of that legislation does provide for significant tax reform and to retain fully deductibility of State and local taxes that was really largely a function of the kind of grassroots political networking that took place across this country and within this institution that made the difference.

We have to revisit that fight in the Senate as well, of course. But we can do it. We are going to need a lot of help. I thank you for your contribution this morning. Thank you very much.

[Whereupon, at 12:45 o'clock, the task force adjourned.]

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